

tions, Gentlemen? If not, I want to thank Mr. Rollin for his patience and express the appreciation of the committee for his remaining over to testify.

Thereupon at 6:45 o'clock p. m. the committee adjourned, to reconvene after the Senate has finished its business Tuesday morning, July 28, 1930, opening at 9:30 a. m.

TENTH DAY.

Senate Chamber,
Austin, Texas,
July 28, 1931.

The Senate met at 9 o'clock a. m., pursuant to adjournment, and was called to order by Lieutenant Governor Edgar E. Witt.

The roll was called, a quorum being present, the following Senators answering to their names:

Beck.	Parr.
Berkeley.	Parrish.
Cousins.	Patton.
Cunningham.	Poage.
DeBerry.	Pollard.
Gainer.	Purl.
Greer.	Rawlings.
Hardin.	Russek.
Holbrook.	Small.
Hopkins.	Stevenson.
Hornsby.	Thomason.
Loy.	Williamson.
Martin.	Woodruff.
Moore.	Woodul.
Neal.	Woodward.
Oneal.	

Prayer by the Chaplain.

Pending the reading of the Journal of yesterday, the same was dispensed with on motion of Senator Woodward.

Petitions and Memorials.

(See Appendix.)

Committee Reports.

(See Appendix.)

Bills and Resolutions.

By Senator Purl:

S. B. No. 11, A bill to be entitled "An Act to amend Senate Bill No. 626, passed by the Regular Session of the Forty-second Legislature by

adding thereto a new section to be known as Section 1-A, providing for the transfer of a sum of money in the amount of \$635.18 from one appropriation to another appropriation made in House Bill No. 397, passed during the Regular Session of the Forty-second Legislature, 1931, and declaring an emergency."

Read and referred to Committee on Finance.

Simple Resolution No. 10.

Senator Williamson sent up the following resolution:

Whereas, The present Special Session of the Legislature was called for the specific purpose of considering legislation looking to the better conservation of the State's natural resources; and

Whereas, The length of said session is fixed by the Constitution at thirty days, of which fourteen have now been consumed, and no legislation has yet been considered by the Senate as a whole; therefore, be it

Resolved, That the State Affairs Committee now conducting hearings be directed to close said hearings not later than Wednesday, July 29, and to report pending bills at the earliest date possible to the Senate for its consideration.

WILLIAMSON.

The resolution was read.

Senator Pollard moved to lay the resolution on the table subject to call. The motion prevailed.

Appointment Announced.

The Chair announced the appointment of Otis Crow as an honorary page of the Senate without pay.

Simple Resolution No. 11.

Senator Neal sent up the following resolution:

Whereas, some twenty-five to sixty members of Camp Waldemar, one of the most popular girls' camps in Texas and the South, at Kerrville, are to come to Austin today, and

Whereas, These representatives come from many states of the Union, and from many localities of Texas, and

Whereas, The members of this

camp have visited various cities and towns in this section of the State, but have not yet visited the capital city; now, therefore, be it

Resolved, That Camp Waldemar visitors to the city of Austin be invited to visit the Senate of the State of Texas, and that they be presented to this body at 9:30 this morning.
NEAL.

Read and adopted.

Senate Bill No. 2.

The Chair laid before the Senate on its second reading the following bill:

By Senator Cunningham:

S. B. No. 2, A bill to be entitled "An Act declaring soil suitable to growing cotton, one of the natural resources of the State, and in need of preservation and conservation on account of root-rot, a soil disease that is fast spreading, and if not checked will impair and injure the soil, of the entire State, and further declaring that planting land to cotton without rotation aids the spread of said disease, and prohibiting all persons, partnerships, associations and corporations who own, lease or rent land from growing cotton during the year 1932 on more than one-half of the land previously cultivated in cotton during the year 1931, and prohibiting planting cotton two years successively, without rotation and making the violation thereof a misdemeanor, and fixing the punishment, also making it a duty of the Commissioner of Agriculture to procure similar laws in other states, and declaring an emergency."

Read second time.

On motion of Senator Cunningham, the bill was set as special order for Thursday morning immediately following the morning call.

Committee Appointed.

The Chair appointed Senators Woodruff, Holbrook and Hornsby to serve on the reception committee to meet Mr. Frank Dobie.

At Ease.

On motion of Senator Poage, the Senate, at 9:25 o'clock a. m., stood at ease subject to the call of the Chair.

In Session.

The Senate was called to order by Lieutenant Governor Edgar E. Witt at 10:58 o'clock a. m.

Camp Waldemar Girls Visit.

The Chair introduced Senator Neal, who introduced Miss Mangum of Camp Waldemar, Kerrville, who briefly addressed the Senate on behalf of a group of Camp Waldemar girls.

Mr. Dobie Speaks.

On motion of Senator Hornsby, Mr. and Mrs. J. Frank Dobie were accorded the privileges of the floor and Mr. Dobie was invited to address the Senate.

The Chair appointed Senators Hornsby, Small, and Parr to escort Mr. Dobie to the platform. Mr. Dobie briefly addressed the Senate.

At Ease.

The Senate stood at ease subject to the call of the Chair.

In Session.

The Senate was called to order at 5:15 o'clock p. m. by Lieutenant Governor Edgar E. Witt.

Recess.

On motion of Senator Moore, the Senate recessed until 9 o'clock tomorrow morning.

APPENDIX.

Petitions and Memorials.

Schulenburg, Texas, July 25, 1931.
Members of State Senate of Texas,
Honorable Bob Barker, Secretary,
Austin, Texas.

Dear Senators: Please know that we appreciate the tender tribute which you paid to the memory of our beloved mother and grandmother, Mrs. Rosa Russek. In the darkness of our grief, we looked to the solace of friends of the various members of our family. Thus, when many of you came to pay personal

respects, while numbers of others sent beautiful floral offerings, even the cold hand of death dealt a gentler blow.

Sincerely,

The Children
and Grandchildren.

TRANSCRIPT OF TESTIMONY.

Tuesday morning, July 28th, 1931, 9:30 o'clock.

The Committee on State Affairs was called to order by the Chairman, Senator Joe Moore.

The Chairman: Members of the Committee on State Affairs, we have with us this morning Mr. Underwood Nazro. Come right up, Mr. Nazro.

Underwood Nazro was sworn by the Chairman.

The Chairman: Members of the Committee, this is Mr. Underwood Nazro. He will first proceed with his statement, and then will answer any questions the members may wish to ask. I want the members of the Senate to observe the rule as much as possible of keeping quiet in the Senate Chamber. It is hard for one not accustomed to speaking to make his voice heard here, unless order is preserved. The Chair shall insist, therefore, on members and spectators keeping as quiet as possible.

The Witness: I am Vice-President of Gulf Production Company and Vice-President of Gulf Pipe Line Company. Both are Texas corporations.

Gulf Production Company was one of the pioneers in the oil business of Texas. It started at Spindle Top and has gradually grown to be one of the larger producing companies in the State. Early in the development of Gulf Production Company it was found advisable by those interested therein to organize a pipe line company in order to assure that Gulf Production Company would have transportation facilities for the oil it produced. Gulf Pipe Line Company, accordingly, was organized, and its growth has been dependent upon and has followed the growth of Gulf Production Company, because during most of the years of the growth of the oil business in the Texas interior the only business available to it either as a purchaser or carrier was Gulf Production Com-

pany's business. Although Gulf Pipe Line Company, of course, is a common carrier and, therefore, furnishes transportation to the public under the terms and conditions imposed on it by Texas laws and at the tariff rates approved by the Railroad Commission, the pipe line company was organized primarily to assure the transportation of Gulf Production Company's oil. It is essentially a carrier of oil, as distinguished from a purchasing agency.

There is a demand that the Legislature do something to restore prosperity to the oil producers and royalty owners of Texas. Various remedies are being urged as sure cures for the ills of the oil business, each of them in the guise of conservation measures. It is well to bear in mind that conservation of natural resources is one thing, and restoring prosperity to the oil producers is an entirely different thing. Both may be worthy endeavors, but they are not identical.

It is important that we do not permit ourselves to be too easily convinced that any radical change in the oil business is necessary. It is true that an oversupply of oil—temporary, we hope and believe—has brought on a situation which has caused, and is causing, enormous decreases in property values and in the revenues of oil producers and royalty owners. It is easy to point to the admitted fact of oversupply and say the Legislature must do something about it. However, let us remember that the oil business has grown from a very small beginning to one of the largest enterprises in the nation under the same competitive producing conditions that are now blamed for the present surplus of oil. We should remember too that many other kinds of business in the United States are suffering now from the same surplus of production and lack of purchasing power that is afflicting the oil business.

Many of the suggested remedies frankly seek to give a commission power to restrict the amount of oil produced in Texas to what is termed the "current market demand," and most of the others seek to do the same thing, but not so frankly. A great many people seem to be under the impression that conservation of oil means merely selling it at a

profit. We think there is a wide and obvious difference between an effort to restrict production to the amount of current market demand and an effort to conserve natural resources. Furthermore, it is impossible to determine with certainty what the current market demand is, both because of the practical difficulties in the way of securing the necessary information, and also because the price at which oil can be bought has a great and controlling influence on the amount of such demand. Oil is a commodity which is capable of many uses. Obviously, it will be used in more different ways and in greater quantities when it can be had cheaply than when its price is higher. How then can you determine what the current market demand for oil is except in relation to some definite price?

At the many hearings before the Railroad Commission in regard to proration, it has been stated that a condition of waste will exist if the supply of oil is not balanced with the so-called market demand. On no commodity has the so-called market supply and demand actually balanced for any length of time, and every effort to artificially force the balancing of supply with demand has been a failure. This has been well exemplified in other industries, particularly rubber, sisal, coffee, copper, cotton, and wheat, as well as other commodities. It must also be borne in mind that the market for oil is a world market and that Texas consumes only a small part of what it produces. The oil industry is not the only one which is now being affected by so-called low prices. Is there any other industry that you know of which is not at the present time going through a period of what we call very hard times?

My associates and I, after managing and superintending the activities of Gulf Production Company as a producer of oil for approximately the past thirty years, under the various temporary conditions of oversupply and undersupply, of low price and high price, of great demand and small demand, that have existed from time to time during that period, have reached the conclusion that a producer of oil, large or small, can only prosper and do justice to and make the maximum money for himself and

his royalty owners by accepting as a fact that the value of oil, just as the value of other commodities, is fixed and determined, whether we like it or not, by certain economic laws. We are convinced that any attempt to circumvent or to deny the existence of these economic laws merely delays the ultimate adjustment that they make inevitable, and increases the financial hardships of producer and royalty owner alike. These experiences have instilled in us certain convictions. We, therefore, have no hesitancy in stating the following general policies that we have agreed upon to govern Gulf Production Company's attitude toward conservation and so-called proration:

1. To support the doctrine of true conservation by eliminating waste in our own production of oil, and by encouraging and initiating scientific research into the problems connected with its discovery and production.

2. We are not in favor of schemes, whether voluntary or compulsory, which will have the effect of restricting or controlling bargaining and the free operation of the economic laws of supply and demand, or that will destroy competition.

3. We favor laws necessary to prevent physical waste, but we believe the Legislature should insist on a definition of waste that accords strictly with the known facts and is applicable to specific properties, and that excludes the idea of interfering with the laws of supply and demand under the guise of preventing waste.

4. It has long been the established law in Texas that the owner of a particular tract of land owns all the oil and gas therein and has the right to produce it. Many citizens of Texas, both producers and royalty owners, have developed and acquired properties in reliance on this rule of law. Accordingly, we believe any attempt to substitute for this established law a theory that there is a common ownership of an oil pool, would disturb, if not destroy, property rights and would result in confusion and injustice to landowners.

We do not think it is true that the shutting down of a small well, which is unprofitable to operate, will result in the loss forever of the oil which that well could produce if its

operation were continued. Activities of drilling and producing in the past have been materially curtailed in many fields due to the low price of oil incident to the bringing in of large fields in other places. However, when the supply in these other places decreased and the price of oil went higher, many of these old fields have been redrilled, old wells revived, and a large amount of oil produced at a very substantial profit. This has happened repeatedly in the old pools in the East. In Texas, we saw oil sell for one cent per barrel at the well in Spindle Top, and in a very short time the price had increased to seventy-five or eighty cents. With the bringing in of large production in new fields, at nearby points, the price again declined and oil sold for ten cents per barrel, with the result that many wells were abandoned. After the period of flush production from these new fields was over, the price advanced again, operators went back to Spindle Top and produced oil profitably in large amounts. The same thing has happened at Sour Lake, Batson, Saratoga, Humble and other fields. These are facts which speak for themselves. The proponents of the theory that the shutting down or abandonment of wells in an old pool will cause the loss forever of the oil in that pool, do not explain what will become of the oil left there. It is still there, and, if there in substantial quantities, I maintain that when the demand for oil warrants the reviving of operations in these old pools, such operations will be revived and the oil produced. This has happened too many times in the past to permit the belief it will not happen in the future.

In line with our convictions about conservation, Gulf Production Company has consistently and continuously cooperated with the Railroad Commission of Texas in its attempts to prevent the physical waste of oil and gas in the oil fields of Texas. With respect to any pool in which we are interested, we have always been in favor of any legal plan which has for its purpose the prevention of the waste of oil and gas and the intrusion of water and that is for the orderly development and operation of that particular field. However, when there has been a plan

suggested for proration or curtailment of production which seemed to us to be not primarily and fundamentally for the purpose of preventing waste, as, for instance, the State-wide proration order of last year, we have opposed it at the hearings before the Commission because we thought such plan was fundamentally unsound and would probably encourage injudicious drilling in old fields and the bringing in of new fields by creating a false hope among producers that they would, under such a curtailment scheme, secure a favorable market for their new production.

However, notwithstanding our belief that the statewide proration order of last year was an attempt by the Railroad Commission to adjust the amount of oil produced down to their estimate of what was termed the market outlet, and notwithstanding our belief, which was stated to the Railroad Commission at the time of the hearing on that order, that such order was fundamentally unsound, nevertheless Gulf Production Company obeyed that and all other orders because of its desire not to resist any attempt to better conditions in the oil business unless necessary to essential self-protection. In addition to complying with the orders of the Railroad Commission, Gulf Production Company has pursued the policy of reducing its drilling to an absolute minimum, and has attempted to operate all its proper ties, whether under a proration order or not, in accordance with the best practices.

Questions by Senator Pollard.

Q. Mr. Nazro, the Gulf Production Company and the Gulf Pipe Line Company are operating extensively in the new East Texas Oil Field, are they not?

A. Yes.

Q. What has been the policy of the Gulf Pipe Line Company and the Gulf Production Company in regard to connecting up with independent wells and transporting their oil?

A. The Gulf Production Company is a producer of oil.

Q. A common purchaser also?

A. No, sir.

Q. You are not purchasing any oil in East Texas?

A. The Gulf Production Company is not a purchasing company.

Q. Not at all?

A. No, the Gulf Production Company produces oil and sells oil to its customers, its principal customer being the Gulf Refining Company. The oil is sold to the refinery at a delivered price, or the Gulf Refining Company of Delaware, or to whoever it can. The oil is sold by the Gulf Production Company as a producing company. The Gulf Pipe Line Company is the transporter. It transports oil for the Gulf Production Company and for others when required to do so. It does purchase a small amount of oil, largely royalty owners and partnership oil, because these people have no other way to dispose of it, and it is a very small, comparatively, a very small amount.

Q. Now, you operate a pipe line in the East Texas Field?

A. Yes, sir.

Q. Do you, or not, when you have, for instance three wells of your own at right angles, three hundred feet apart, and offsetting another well making the fourth corner of the square, three hundred feet from two of your wells, do you take oil from this other well, or not?

A. We have such instances as you mention, and in those instances we have prevailed upon our customers to buy the oil from our offsetting neighbor at the same price that they pay to the Gulf Production Company and under the same kind of a contract.

Q. You prevail on your customers?

A. We told them that it would be the right thing and the fair thing to do, and it was at the request of the Railroad Commission that we tried to provide our neighbors with some outlet.

Q. Mr. Nazro, isn't it true, that a condition as has existed in East Texas for some time, that you have had three wells, representing three corners of a square, three hundred feet apart, that you owned yourself, and another well on the fourth corner, is owned by an independent, and that you first connected with this well some three months ago and since that time have not taken any oil?

A. I know of no such instance.

Senator Woodruff: When you say "we" do you mean the Gulf Pipe Line Company, the Gulf Production Company and Gulf Refining Company?

A. No, sir, I do not mean the Gulf

Refining Company. I have nothing to do with that company, I am neither an officer, director, nor employee.

Q. You are connected with the Pipe Line and producing subsidiary of the Gulf?

A. Yes, sir.

Q. And when you say "we" you in effect mean the Pipe Line Company and the producing company?

A. Yes.

Q. Mr. Nazro, if that condition does exist, you are not playing fair with the little fellow with that fourth well?

A. I don't know where that condition exists.

Q. If it does exist, it is not treating that fellow right, a pipe line company that is a common carrier, refusing to take that oil.

A. It would not be if that oil was tendered to us for transportation, but we haven't refused to transport any oil.

Q. I will ask you this, if as a matter of fact it was tendered to you under the orders of proration, to take under the orders of proration, and you refused to take it, then it would not be treating the man right.

A. But I haven't done it.

Q. I want to ask you this: If you wrote me a letter, or your company did, refusing to do that, some other member of your organization, for your company, did that, didn't they?

A. Do you say refused to purchase your oil or transport your oil?

Q. Under proration order?

A. Transport or purchase it?

Q. Take it under any conditions and said there was a purchasing company in Delaware that we would have to take it up with, and maybe the Gulf Pipe Line Company of Texas could induce these people to take it. Isn't that the way you handled that?

A. Yes.

Q. That is the way you handled this particular case?

A. Yes.

Q. Then, that is all about that. Are you acquainted with the activities of the Texas Advisory Committee under which Mr. Rhodes Baker, and several other fellows prepared bills?

A. (Interrupting.) I am not a member of the,—Do you mean the Central?

Q. Some kind of organization that has headquarters in Texas?

A. The Central Proration Committee?

Q. Mr. Todd, Mr. Landreph and Mr. Roeser?

A. We are not members of it.

Q. Do you know these people?

A. As individuals?

Q. Yes.

A. Yes.

Q. I want to ask you if at any time within the past sixty days Mr. Landreph or Mr. Roeser called upon you for twelve thousand, five hundred dollars with which to finance the activities of this concern?

A. I don't think it has been quite that late.

Q. How long has it been?

A. I really can't tell you the exact date. The last incident I have a recollection is meeting Mr. Landreth, —I expect it was within sixty days, —I was passing through Fort Worth from Oklahoma and I met Mr. Ed. Landreth on the street in Fort Worth. After saying "Hello," I had not seen him for a long time, he said "Naz, why don't you send me that money," and I said "What money, Ed.?" and he said "For the Central Proration Committee." I laughingly said, "Because I am afraid you might spend it illegally." I passed it off as a joke and he made some remark like, "Oh, go to the devil," or something like that, and he passed on and I went on. We are very good friends, but we had been formally requested to make contribution to that Central Proration Committee but we declined to do so.

Q. They requested you to give them twelve thousand five hundred dollars?

A. I think that is what they said our allotment was.

Q. In other words, this allotment was made as to all oil companies?

A. I don't know how it was made. I wasn't interested in it, that wasn't my business.

Q. Did they ever demand any money from you prior to that time for any other purpose?

A. They requested it.

Q. I beg your pardon. I meant "request." Mr. Nazro, is it not a fact that today we are producing approximately one hundred thousand barrels of oil daily less than the consumption in the United States?

A. I think that is approximately correct.

Q. Today oil, crude oil, is selling for about one-third for what it was

selling a year ago, isn't that right?

A. No, it is a little above that, nearer forty per cent today.

Q. I mean prior to the Legislature meeting. You have made a pretty close study of the economic conditions of the world in the past six months, have you not?

A. No.

Q. You know pretty well about the market for oil?

A. Not for the world-wide market.

Q. Well, for the State market?

A. No. On refined or crude?

Q. Crude.

A. Of crude, yes, sir.

Q. Now, Mr. Nazro, please explain to this Committee why it is that crude oil in East Texas is selling for ten cents a barrel and in other sections of Texas, Louisiana, Arkansas, Oklahoma, North Texas and Central Texas that the price is about four to five times that much?

A. Well, I have found that the price of any commodity,—that the buyer of any commodity tries to buy his requirements as cheap as possible. When there are a lot of sellers who are clamoring to sell, the buyer looks out the window, figuratively speaking, for a few days. One man will come in the office to sell him some oil, and he will say "Bill, but your price is too high." The man has not even named a price, but he starts out telling him that his price is too high, and he says "Why, I can buy it cheaper." A buyer is a trader, he makes the best trade he can. Now, when there are a lot of sellers, forced to sell by their particular economic situation that they find themselves in, and a comparatively few buyers, the result is that the price generally goes down.

Q. Does that price usually drop fifty per cent in one day?

A. Hardly that in one day.

Q. Can you state why it was that the posted price in East Texas dropped from sixty-seven cents to thirty-seven cents in one day?

A. The posted price might have been changed, Senator, in one day, but the causes which caused the change in that price were going on for some days or some weeks beforehand.

Q. Does the Gulf Production Company and the Gulf Refining Company, and other Gulf companies that purchase oil, do they usually follow the decline in price of crude

as set by the Humble Oil Company, or do they?—

A. (Interrupting). Not alone by the Humble Oil Company. The Gulf companies, any one of them is not a major purchaser. I think I can best explain that to you, as I tried to in my little statement. The Gulf Production Company had to sell its oil. It was a producer at the start and in order to sell its oil it was necessary that pipeline facilities of some kind, some method of transportation be provided. They started at Spindletop. Then Sour Lake came in. The Gulf Production Company had some highly productive property in that field. To secure a market outlet for its oil it was necessary that some pipeline facilities, some transportation facilities be provided. Therefore, the Gulf Pipe Line Company extended its line to Sour Lake. The same thing occurred as new fields were brought in in which the Gulf Production Company had property. The Gulf Pipe Line Company has no pipe lines extending to any field that the Gulf Production Company has no property in. The Gulf Pipe Line Company is a transportation facility for the Gulf Production Company to transport the Gulf Production Company oil.

Q. Now, that is a common carrier?

A. Necessarily so. The law provides we should be. If you will allow me, I will tell you why that is necessary and how it came about.

Q. All right.

A. In the early days in Pennsylvania a man, I think his name was Mike Murphy, had some property in the State and he conceived the idea if he could get his oil to seaboard he might get a better price for it. He started to build a pipe line. He was buying his right-of-way, paying a fair price for it. He came to the Pennsylvania Railroad and the railroad evidently was very friendly with a major competitor—

Q. They usually are, aren't they?

A. No, sir; not now. They were in those days. The railroad said "You can't cross our right-of-way." What could this man do but go to the Legislature and ask for some right to condemn a right-of-way across that railroad track. Otherwise he would have been shut in. The Legislature, or whoever granted him the right-of-way, said "Yes, Mr. Murphy, we will do that but if we do that you must agree to carry other people's

oil also." That is the reason for the necessity of a pipe line having the right of eminent domain, the right to get out from a field, if you like to call it that, and in giving a corporation or any individual that right, whichever it was in that case, they said "You must also carry other people's oil." Now, that is the crux of the whole oil situation, right there, isn't it?

A. No.

Q. The fact is that any common carrier in order to obtain the right of eminent domain, any pipe line must become a common carrier and agree to take all oil that they can haul?

A. No, sir; not all oil.

Q. Now, how does your company, Mr. Nazro, manage to transport its own oil to the exclusion of other oil as a common carrier?

A. We do not. We have never refused in my knowledge to transport oil at any time it has ever been offered to us.

Q. What requirements does a man who owns one well have to meet to offer you oil?

A. He has to comply with the orders of the Railroad Commission. He has to have his oil in the first place in acceptable shape, he has to have some place to put it at the end of the line.

Q. You mean he must have somebody at the other end of the pipe lines?

A. Someone to take it.

Q. To take it?

A. Yes, sir; and some place to put it.

Q. Then in the event there is no purchaser at the other end of the line, or in the event there is no storage provided for that oil, you refuse to take the oil?

A. We have never refused to transport it. We have transported it whenever it has been tendered. When I was an independent, before I went with the Gulf Company, I asked them to transport some oil for me and they did it readily.

Q. About this East Texas situation, Mr. Nazro, isn't it true that all pipe lines have refused to make connections with these little wells over there, that these little fellows have?

A. No, Senator, I don't think that is true.

Q. How do you account for the fact—

A. (Interrupting) There are very

very few unconnected wells in that field today.

Q. How do you account for the fact that about three weeks ago, about the time the Legislature was called, that there were one hundred and eighty of those wells, out of twelve hundred that were not connected.

Senator Holbrook: I call the Chair's attention to the fact that we accepted an invitation from the House to hear an address by Mr. Frank Dobie at this hour, and I suppose we want to carry out the agreement.

(Thereupon on motion duly made and seconded the Committee stood at recess until after the address by Mr. J. Frank Dobie.)

Q. You stated a few minutes ago that the Gulf Pipe Line Company had never refused to transport oil for any oil producers, that the trouble was that if the oil should reach its destination that the purchaser would have to find a market or storage for the oil?

A. I did not say that was the trouble. I said that was a requisite.

Q. Well, it is the same thing in a way, the way I understand it in East Texas parlance. How would you solve that requisite?

A. I don't quite understand you.

Q. What solution would you offer in the enforcement of the Common Purchaser Law for the finding of a market for oil that the Gulf Pipe Line Company or any other pipe line might transport for which they did not have a market?

A. I am sure that I don't know that I could give the solution without a good deal of thought and study, even in this.

How to find a market for our production is a very serious problem with me.

Q. Then the ratable takings law if any should be enacted, would be a nullity by reason of inability to find a market?

A. I am sure I don't know what kind of law they would pass.

Q. Would it not be fair to all producers in a given field to require common purchasers to buy ratably and pipe lines to transport ratably from wells?

A. No, I don't think it would be advisable for our company to try to sell its oil ratably.

Q. Then your company would not

favor a ratable taking bill, as it in usual parlance is defined?

A. That might have a tendency toward fixing the price and I do not want some one else to fix the price on our commodity.

Q. On the other hand you fix the price on any oil you buy?

A. We do not, the purchaser does.

Q. Doesn't the Gulf Production Company buy any oil?

A. No, sir.

Q. Never has?

A. No, sir,—well, I don't say never, it may have bought a little at times, but I don't remember an instance. It is not in the business of purchasing oil, it is a producing company.

Q. According to the report of the Interstate Commerce Commission report No. 3170, for the year 1930, it shows that the Gulf Production Company on transporting seven million, sixteen thousand, four hundred and fifty-nine barrels of oil declared a net income of ten million, three hundred and forty-nine thousand, nine hundred and ninety-two dollars.

A. That is the Gulf Pipe Line Company now, not the Gulf Production Company.

Q. It is the Gulf Pipe Line Company of Texas?

A. Yes, sir.

Q. And they declared a dividend of three hundred and thirty-eight per cent in 1930?

A. That is a mistake.

Q. What is it?

A. It has not declared any dividend.

Q. That was in the report?

A. I don't see how that got to the Interstate Commerce Commission, because we did not declare a dividend in 1930.

Q. Have you declared one this year?

A. No, sir.

Q. Did you make any money last year?

A. Yes, sir.

Q. How did you manage not to declare a dividend, just refused to declare one?

A. Didn't have the cash.

Q. What did you put your profits in?

A. Back in the pipe line.

Q. The Gulf Pipe Line Company of Oklahoma, transporting thirty million, two hundred and twenty-

four thousand, nine hundred and eighty-two barrels of oil reported a net income of three million four hundred and thirty-five thousand, three hundred and ninety-six dollars, and declared a dividend of four hundred per cent in 1930, is that right?

A. I do not operate the Gulf Pipe Line Company of Oklahoma.

Q. You don't know about that?

A. No, sir.

Q. Do you consider the price charged now for transporting crude oil through pipe lines a reasonable rate?

A. Yes.

Q. How much profit did you make for the year 1930?

A. We made about ten per cent on our invested capital.

Q. How do you account for this statement getting out?

A. I don't account for it. They may have figured net earnings against capital stock.

Q. Now then, explain to me, I am just a country lawyer, I don't know much about high finance, how you can make four hundred per cent on net earnings and make ten per cent profit on your investments?

A. We did not make four hundred per cent net earnings.

Q. How much net earnings did you make?

A. Well, lets see what that percentage would be, we made about ten per cent on our invested capital.

Q. You did have a net income of ten millian three hundred and forty-six thousand dollars?

A. I think that is about correct. Senator Pollard: I believe that is all.

Senator Small: Mr. Chairman, I would like to ask some questions.

The Chair: You may proceed, Senator Small.

Questions by Senator Small.

Q. I take it from what you say you are against proration in any form?

A. No, sir, I didn't say that.

Q. Well, I misunderstood your testimony. What is your attitude toward proration?

A. That we are in favor of any plan in any particular pool which has for its purpose conservation prevention of the waste of oil or gas, for the prevention of water intrusion and which has for the orderly and

economic development and operation of that particular pool.

Q. Well that is what I call conservation?

A. We are particularly in favor of it.

Q. Then if you leave off conservation then I begin to call the rest of it proration, and my conception of it then is you would be against proration?

A. We are against this so called State-wide proration because it is based on market outlet, whatever they mean by that.

Q. Then you do contend that you are in favor of conservation of the highest kind?

A. Absolutely.

Q. I believe you stated that you had no sympathy with the idea of common ownership in a pool?

A. No, sir.

Q. You do not have?

A. No, sir.

Q. What do you consider,—what is your attitude toward gas energy that might be in a pool?

A. It is a fact, but the pool, Senator, is not the unit of production, that is, I contend it is not the unit of production.

Q. Don't you think that every owner of property in a pool has a common interest in the gas that is in that pool that is used to lift that oil?

A. No, sir.

Q. You do not so consider?

A. No, sir.

The Chairman: Will you speak louder, please sir, so the gentlemen in the back may hear you.

Q. I asked you what was your attitude toward the gas energy in a pool, whether you considered that was a common source of energy placed in the pool that should be beneficial to every owner alike in proration to the property?

A. No, sir.

Q. Your conception of it is that no one person has a right to go in and dissipate any amount of that energy that he might see fit to produce his property?

A. No, I do not. I don't think he has the right to dissipate the energy under his own property at all. That is I don't think he should.

Q. Don't you think that if he unduly dissipates that energy that he is violating one of the first principles of conservation?

A. Certainly he is.

Q. Don't think it is the function of the State to prescribe that gas energy under any pool is for the use and benefit of every owner in that pool?

A. We now already have a law on the statute books to that effect.

Q. That law has not been very well observed, has it?

A. It is not as well observed as it should be in some pools; in other pools it is being thoroughly observed.

Q. With reference to the East Texas pool, don't you think there has been a flagrant dissipation of gas energy in that pool?

A. Yes, there has been a lot of gas wasted.

Q. Don't you think the State Government should intervene and prevent any such waste as the dissipation of that gas energy over there for the benefit of everybody in common?

A. You already have a law on the statute books to that effect.

Q. I am not talking about the law, we are admitting that it has been dissipated, and if you have a law it has not been enforced. And don't you think the State should intervene and see that the law is enforced and if the law is inadequate we should have a new law?

A. I think the State should see that all of its laws are enforced.

Q. But you do say that law has not been observed and there has been a dissipation of that energy?

A. Yes, sir.

Q. Then some one is at fault?

A. In my mind there has been a wastage of gas.

Q. And the State has been derelict in its duty to the citizens?

A. Other people might think there has not been a waste.

Q. I am getting your idea?

A. Yes, I think so.

Q. We can't be governed by what everybody says at the same time?

A. No, I don't think so. But it is not my business to enforce the law.

Q. But you would have no objection to that kind of law, you have none to the one that is on the statute book?

A. None whatever.

Q. And if we can strengthen that law you think it should be the duty of the Legislature to do it?

A. I don't think you could write

a law much stronger than the one you have now.

Q. Well, if we could do it, if we could get it done, you think we ought to do it here as Legislators?

A. I don't know whether you can do it, and whether this body is competent to pass a law of such an intricate technical nature, without meaning any disrespect to the Senate, I seriously doubt their ability to do it.

Q. We admit we are not very competent, but we have called you and many other such gentlemen who have preceded you, to advise us on that subject, and that is what I am trying to get from you now, whether or not you think the conservation law with reference to conserving the gas in various pools, not particularly East Texas, but any other pool, could be strengthened and be improved, if it can be, and I want you to make that suggestion?

A. You mean you wish me to make a suggestion as to how the gas should be used, how the present law could be improved on?

Q. If you know of any.

A. I really know of no way that the present law could be improved on.

Q. You admit there has been a waste of gas energy, then in your opinion it has been in the application of the law and not the law itself?

A. I say in my mind I think there has been a waste.

Q. All right,— wait a minute, please, but the proper and most efficient oil-gas ratio for the conservation of gas has not yet been determined in that field?

A. No, sir.

Q. Well, you would interpret blowing gas in the air in substantial quantities is waste, would you not?

A. Yes, sir.

Q. Would you consider it a waste to burn gas in boilers where the gasoline contents has not been extracted, would you not?

A. No, if the value of the fuel to the boiler is more than the value of the gasoline or gas for other purpose, it is not waste.

Q. Don't you know you can extract the gasoline and it does not hurt the contents of the gas and you can burn it in the boilers the same?

A. That is true, but the cost of extracting that gasoline and the value of it, selling it and all of that, it might change the condition from a

wasteful condition to an economical condition.

Q. Do you think that the State should permit production in this State to become so flagrant, or so profuse as to admit of waste of that much gasoline that is burned in these boilers and much gas that blows into the air, don't you think the State should have a right to conserve production to such extent as to make it profitable to extract that gasoline?

A. Do you mean that the state should curtail production for the purpose of raising the price? Then I say no.

Q. Don't you think that the state should curtail production to the extent where it would become profitable to extract the gasoline out of the gas that is being burned in all of those boilers, and conserve the gasoline that is being blown into the air by this gas that goes up over there, and is not utilized at all?

A. I think the state is not concerned with the price.

Q. Not concerned with the price at all?

A. Absolutely.

Q. Then you believe the state should allow production in this state to come to the point where it would be profitable to waste that much energy and that much gasoline, and that much gas, and let that go to waste, and not conserve it?

A. No, sir.

Q. All right. Just explain what you do mean?

A. I mean that the state should not allow the commodity to be wasted if it is not used.

Senator Purl: Mr. Chairman, I have the highest regard for the witness, but I'll declare that we can not hear him over here.

The Witness: I am sorry, and I will try to talk louder.

Senator Purl: I mean no offense.

The witness: Certainly not, and I am sorry that I was talking so low.

The Chairman: I believe that if you would address your answers to the audience instead of to the questioner, that we would get better results.

The Witness: It is just natural to look at the person asking the questions.

The Chairman: We have tried to keep a chair there for the questioner, and perhaps, if you were to move over there, Senator, it would be better.

Senator Small: I haven't very many more questions.

The Chairman: Let me have the sergeant-at-arms set a chair over here.

Senator Small: My questions wouldn't warrant it, but some of the others might.

The Chairman: During this interruption I will ask the newspaper men not to disturb the chairs around this center table here. Those are the chairs for the reporters who come in to take the testimony, and I would like for those chairs to be reserved for the reporters. All right, Senator Small.

Q. What I am getting at is, do you think that the State, in conserving its natural resource, should permit the production to the extent that it would be unprofitable to conserve the amount of gas that is being blown into the air over there in East Texas, and to conserve the gasoline in the amount that is being consumed in the boilers over there to run that field?

A. No. Not to the amount that is now being wasted in that field.

Q. In other words, in—whenever in the operation of the oil industry, production gets so great that the oil produced would not or could not be profitably conserved for the gas and gasoline contents, then you say, and you make it as an economical proposition to conserve the natural resources, don't you think the state should interfere, and curtail the production to where it would be profitable to utilize those things?

A. Not for that purpose. Not for curtailing production. The state merely has the right to say you must not waste this gas in this way. Now, if you can stop that wastage of gas, and if it lowers the production of oil, that is an incident. That is not for the purpose of lowering production of oil that you are stopping this waste. The purpose of that law is to stop the waste. Now, if it is incidental, or if it results in a curtailment in the production of oil when you stop the waste, now, that is the result of doing it. That is not for the purpose of curtailing the production.

Q. But the ends are just the same, aren't they?

A. They may not be the same, Senator.

Q. Um huh. But, we do arrive at this conclusion, that it is the duty

of the State to conserve that gas over there, and if, in enforcing the bill to conserve that gas, it reduces production, why, it would just be the same as to reduce production so as to make it profitable for the folks over there to conserve the gas—

A. I think it would have the result to that effect.

Q. The same.

A. But the purpose of the state is to curtail waste, and to prevent waste. Now, if the prevention of waste curtails the production of oil and raises the price of the oil, that is a result, and it is not the purpose. Do I make myself clear to you?

Q. Yes, sir; I understand. I am not particularly interested in the reasons for that—for doing it. I am interested in getting them to do it.

A. Senator, bear this in mind—that I am sincerely interested in a higher price for oil if possible.

Q. All right.

A. We need it in our business.

Q. Well, you conceive it the duty of the conservation agencies of this state to see that wells are scientifically drilled?

A. Yes, sir.

Q. And that they are properly spaced?

A. Yes, sir.

Q. And by "scientifically drilling" a well, I take it that they don't drill too deep into the sand, and all of those things. You would also concede it the duty of the state to protect against the encroachment of any salt water, or things of that kind to destroy the whole field?

A. Yes, sir; if it could be shown that it would destroy the whole field; but, bear in mind that I know of no two fields identical.

Q. Don't you think that —

A. And the salt water may be an assistant in producing oil in some instances.

Q. Well, from the testimony we have had here, I think it is a pretty big assistant for handling the oil, if handled correctly. Don't you think that the drilling of East Texas, and the way it has been handled over there, if it is materially increased, the danger of salt water in some fields brought about material damage by reason of the premature encroachment of salt water?

A. It is problematical.

Q. Problematical?

A. It is probably true, but we don't know enough about East Texas.

Q. Yes, sir.

A. We all have our opinions. We all have our individual ideas, and a great many of us may differ.

Q. Then you would subscribe to just as strong a conservation law as will be necessary to conserve the oil and gas resources of this State?

A. We have one now, Senator.

Q. I understand you say that we have one.

A. I think we have.

Q. Then you would subscribe to a Commission or enforcement agency strong enough to adequately enforce that kind of a law?

A. Certainly.

Q. All right. And you lay whatever waste there is to a lack of enforcement of the law, rather than to the law itself?

A. Yes, sir.

Q. And the only thing underlying the surface of the earth that you concede a common ownership in is the gas energy that is put there for the benefit of the people?

A. I don't concede a common ownership in anything.

Q. Then you think that the Gulf Production Company over there has a perfect right to take any amount of the gas that it can take—or whatever it can get, regardless of what the other fellow might do?

A. If they use it without waste.

Q. Well, without waste,—Do you mean for them to use any more of it than is necessary to produce their own oil?

A. No, sir.

Q. What do you mean by "without waste"?

A. Well, suppose that we have some property in that field that will produce a large amount of gas,—that we can take that gas to the market and utilize it, or sell it,—do what we will with it. I think that it is ours. The oil pool isn't the unit. The lease hold is the unit, in my mind at least. We make a specified definite contract with the land owner to operate that property,—that particular piece of property; and it is our duty to try to produce the oil that is under that land for his benefit, as well as for our own—to do so without waste.

Q. Then it is your theory that

in an oil field you may take just as much gas as you want to take, so long as you are putting that gas to a use, and not wasting it?

A. When you don't waste it, or harm your neighbor in doing so.

Q. All right. Now, when you go to talking about harming your neighbor, don't you necessarily either get back to the point that your neighbor has some interest in the gas, even under your land?

A. In some instances he has, and in some instances he has not.

Q. Now, you admit that he has an interest in that, you admit then, that there is a common interest in the gas?

A. Not through the whole pool, Senator.

Q. Well, what do you think about oil-gas ratio?

A. There are about as many theories in regard to oil-gas ratio as there are petroleum engineers. Each individual well is a problem unto itself,—to get what is the most efficient oil-gas ratio of that well. The efficiency of an oil-gas ratio to my mind, is the one that will produce the most oil with the least amount of gas—to the best interest of the property on which that well is located.

Q. All right. Now, just one more question. Do you think that anyone should be allowed to take gas out of an oil well beyond the proper oil-gas ratio that you have just mentioned?

A. It is poor business to do so.

Q. It's poor business to do so from the standpoint of his own lease, and don't you think it is poor business from the standpoint of the entire —

A. Yes, sir—but the whole pool is not a unit.

Q. I understand that the whole pool is not a unit in your opinion.

A. Just a minute, Senator. I mean that the sands in a pool are not all of the—they are not always all connected. Each pool is an individual problem, just like each well and lease is separated problem.

Q. I might have been using the word "pool" where I should have used "sand," but what I mean to ask is that the sand might extend out over several leases, and there is a supply of gas down there that helps raise the oil out of that entire sand

that it applies to. Isn't that correct?

A. But, whether that is the same sand,—whether or not there is any connection between them, or whether there is a layer that separates them.

Q. Don't you think that you can make that proposition definite enough to authorize the State to come in there and preserve the gas energy for all of the sand that it is reasonably certain about?

A. You can make it definite enough to each individual well.

Q. Um huh.

A. It will have a better effect than trying to deal with the pool as a whole, which is an unknown quantity. The well is a very definitely known quantity.

Q. Well, now, with the conservation law that we have now, and you say that it is as strong a one as we can get, and with it properly enforced, what is your idea as to the extent to which it would reduce production in this State?

A. Probably twenty percent.

Q. Would a reduction of twenty per cent in Texas bring about relief from the standpoint of price?

A. It is the same old law of supply and demand. If you reduce the supply, you automatically—if the demand stays the same—that their relationship—

Q. What I mean to say is, would twenty per cent be a sufficient reduction to materially—be reflected in the price?

A. I think it would be reflected very advantageously to the producer.

Q. Then the features of this bill—the Woodward Bill, that you have read, I suppose?

A. No, sir; I haven't studied it closely, I am sorry to say.

Q. The feature that would be—that you would object to—would be any regulation beyond the point where proper conservation stops?

A. Yes, sir, what little I have seen of the bill is that it includes areas, and an area might be a very wide space,—the boundary line might be quite wide. Some commission, or some authority might say the area between the Trinity River and the Sabine River—what we call East Texas, might be one area. And, they might say that the whole Permian basin might be one area, and then might say that the whole coast would be another area.

It should be very definite as to pools, and properties, and wells,—It must be brought down to a smaller scope. It is too embracing, and not down to one area. Suppose, for instance, you take the whole Gulf Coast, and call it an area, with the twenty-five or thirty fields now there, and the many more to be found. Suppose you should take the whole Permian basin as an area, with the fields there, and the many more yet to be found. Suppose you should take the East Texas area and say that the Trinity River and the Sabine River are the boundaries of that area. It is too embracing.

Q. Yes, sir; I see. Then, would you narrow that down to one particular sand in one particular field?

A. I would narrow it down to one particular property, and one particular well on that particular property, when it comes to the prevention of waste.

Q. And make each well a problem by itself?

A. Because it is. You can not make something different from what it is. You can not pass a law and say that this table is putty. It's wood.

Q. All right. Now, you are interested in price, and you think you have laws,—that with a proper enforcement of the conservation laws we now have, would bring about a reduction of twenty per cent from Texas, and that twenty per cent is sufficient reduction to materially affect the price. Then, a good conservation law would be beneficial financially to the oil men, looking at it from a conservation standpoint, to that extent. Now then, if the State could go one step farther and say we conserve this oil against actual waste, but we also think it wise to conserve the oil resources of this State beyond the point of reasonable demand?

A. At what price, Senator?

Q. Well, that price, of course, would have to be determined. It would be a varying price. But, don't you think that the State—if the State went one step farther, and restricted the output down to the demand, that that would be doing the oil industry and those engaged in it, a very material favor?

A. It would be a very great harm—on the contrary.

Q. All right. Let's have your

reasons,—just concretely, as to why you think it would be a harm.

A. This whole oil business has grown just through such periods as we are now passing through. That is, periods of overproduction, and then after a while a period of underproduction and the price and demand always is bearing—is always the controlling factor of what might be called overproduction and underproduction. It is overproduction at some price, and it is underproduction at some price, and you can not get away from the price feature, when you deal with the market demand of any commodity; and we certainly do not want any legislative body or any commission, or any bureau to say what price we shall have for any particular commodity.

Q. Then, if a proper application of the conservation law will leave Texas with a supply of oil that will force it to sell at ten cents a barrel, that is all right with you?

A. No; it would hurt me.

Q. I know it would hurt you, but you wouldn't be asking for any legislative relief?

A. I would not. Suppose this East Texas field were over in Louisiana, could they come to Texas, and say for us to shut down Texas, so that we can get a better price for our oil in Louisiana, or could we go over to Louisiana, and say for them to shut down on Louisiana, so that we can get a better price for our oil in Texas?

Q. No, sir; we would be doing just like we did when the Oklahoma City and the Cimarron field came in. We wanted to pinch them down.

A. We have no right to do so,—no right to say so, what right would we have, for instance, to say to a wheat farmer, who has five or six, or maybe ten thousand acres in the Panhandle, that you can not use a combine harvester, so that the man with twenty acres may produce and market his wheat—cut it with a scythe and a cradle in order to allow him to make a profit? We haven't that right.

Q. And you would do the same thing to wheat that you would do to oil?

A. Absolutely, under any condition.

Q. Notwithstanding the fact that we have been raising wheat out in the Panhandle long before we started

producing oil, and will probably continue to raise wheat after the oil has been wasted and gone, and we are substituting something else for fuel?

A. Senator, oil is going to be here for many, many years.

Q. That's encouraging.

A. May I tell you a little story?

Q. All right.

A. When I was a youngster, I was working for an oil company, and they employed the man who was the outstanding petroleum geologist of that time. It was in the days before automobiles, and we used a team and buck-board. My job was to drive that team and buck-board and pick up geological samples and put them in little sacks and mark them just like this geologist told me, and to listen to him talk. I provided the place for him to eat and sleep—made the arrangements, and traveled with him around the country. He said to me, "Underwood, get out of the oil business. It has no future. Electricity will take the place of the lamp. To be sure, we will keep on producing oil here, along the Ohio River, but the uses of it are going to be curtailed. Get into electricity." That has been over thirty-five years ago, and every year we have seen the uses of petroleum increase. We have seen the supplies of it increase, but it is one of the very few industries of the country now which have not a material supply being produced over the current demand or consumption.

Q. Then, you think our oil resources are inexhaustible, and that it is perfectly all right for the State, acknowledging its duty to conserve the natural resources, to permit production that will cause that resource to be sold as oil is being sold in Texas today?

A. I think it is inevitable at times. We have all seen low prices who have been in the business for any length of time. We have seen high prices. We have seen periods of oversupply, and we have seen periods of undersupply; and we have seen over demand and under demand. There is nothing new about this. Why get hysterical about it? It is a condition that has occurred in the past, and that will occur in the future.

Q. Then, you think there will be a survival of the fittest?

A. In every line of life there is.

Q. And if the little man is choked and put out of business, then he should have gotten in some other line of business to begin with?

A. No, he is not going to be choked to death. He is going to come back.

Q. From the bottom?

A. Is there any line of business any different?

Q. Then, you draw no difference between the oil business and any other line of business in the country?

A. It is a mining business—the business of mining for petroleum.

Q. You think the same rules would apply to that as to agriculture?

A. No; because it is a mining business; and the other is a agricultural business?

Q. That is, I take it you think we should not take any steps whatever to curtail the production of wheat or cotton?

A. No; every time in history that I have ever read of, when such steps have been taken, it has hurt the producer of that commodity.

Q. Then basing it on what has happened to agriculture, would you say we are not justified in taking any steps with reference to oil?

A. I think it would be a very great mistake to do so. I think it was a mistake for the Farm Board to buy up all of this cotton and wheat to hold up the price. Great Britain tried to hold the price up on rubber, and see what it has done to rubber.

Q. The State is not trying to buy any oil, but it is trying to keep it down in the ground until we need it. That is all.

Questions by Senator Woodward.

Q. What is the storage capacity of your company in Texas?

A. The Gulf Production Company?

Q. Yes.

A. About fifteen million barrels.

Q. Is that the total storage capacity of the Gulf Company and its connections?

A. The Gulf Pipe Line Company has some tanks. They are what we call working tanks, and they are not primarily storage tanks.

Q. The total capacity of upground storage, as far as your Company is concerned, is about fifteen million barrels?

A. Yes; the Gulf Production Company.

Q. Is it your policy to keep that storage filled to capacity?

A. Not now. It is our policy to reduce that storage. The burden of carrying all that storage unnecessarily is too heavy; it costs too much money. Every new field which is brought in reduces the necessity for carrying storage.

Q. Why?

A. The principal reason for carrying a large amount of storage is to carry over a supply of oil to meet your contracts for the sale of oil during such periods as you might have a shortage of production, but every new field that the Gulf Production gets into, and has properties in, reduces the necessity of that storage, because the supplies of oil are spread out and more assured to it. The only necessity for storage is to assure a temporary supply.

Q. Then you don't endorse the policy of keeping your storage to capacity?

A. I really wish we had it reduced by sixty per cent, and had our steel tanks reduced considerably more.

Q. Then, that would be kept underground, wouldn't it?

A. The oil would be kept in the field.

Q. That would be conservation?

A. It would be produced as needed—it would with our Company.

Q. What about physical waste incident to storage?

A. Our experience has been that waste is very slight.

Q. What per cent?

A. Less than one per cent when the tanks are properly made tight.

Q. Mr. Nazro, what is your suggestions or ideas—

A. That is one per cent per annum.

Q. What is your idea in reference to agreements between companies for unit production, or unitization of properties?

A. I think that we would like to have the right to do it; but we must not be compelled to do it, because with our Company, and I think it is true with every other company, of a leasehold that particular lease is the unit—it is the unit of our operations. Now, in making an agreement, even if permitted to do so legally, as to a plan of unitization, or plan of operation of a series of prop-

erties, I would want to first see how that plan fit our particular property, and whether it is a good trade for us.

Q. You think that is a matter that should be left entirely to the individual as to whether or not he should enter into those agreements?

A. It will have to be as to whether we would enter into such an agreement, even if the law permitted it.

Q. Are you operating any properties under that plan of unitization in Texas, by agreement with someone else?

A. We have what we call co-owner agreements.

Q. It is not a pooling of interests?

A. No, sir; it is not at all.

Q. It is just a working agreement between you and the joint owner?

A. Not a joint owner but the co-owner of the same property.

Q. Now, getting back to this gas question, I believe you don't believe in the principle of gas ratio in the production of oil as applied to a pool or area, but that each well should be determined by itself as to the amount of gas which would be permitted to produce to lift oil?

A. Yes, sir; because the well is the unit of production.

Q. So you would apply it to the individual well, rather than any pool or area?

A. Yes, sir; I think it must be necessarily that way.

Q. Do you believe, if that was properly observed in Texas today, it would materially reduce the output of oil?

A. I think about twenty per cent.

Q. Twenty per cent. In other words, that one thing alone would reduce the output approximately twenty per cent?

A. I think so.

Q. If so, would that have any effect on the market for oil?

A. I think so.

Q. To any great extent?

A. I think my twenty per cent must be pretty high—

Q. Well, just approximately?

A. Somewhere in that neighborhood.

Q. I believe you said that would have a tendency to affect the price?

A. I think it would.

Q. I will ask you this question:

Do you believe we need any legislation at all?

A. Really, I don't.

Q. All right. Then, it is your idea that this session for that purpose was wholly unnecessary. I am not saying that for you to criticize anybody.

A. I don't want to criticize anybody.

Q. I know you don't. You believe our present laws are adequate?

A. Ample.

Q. To prevent physical waste and all other matters affecting the oil industry?

A. I think so. I haven't a copy of that law here, but it seems to me it is very clear.

Q. I will call your attention to it probably in a minute. Insofar as your company is concerned, you have been more or less on the sideline during all this controversy, haven't you?

A. No.

Q. Well, where have you been? Which crowd have you been with?

A. I expect we have been rather alone in the solitude of our originality. We have maintained before many hearings of the Railroad Commission that we were in favor of conservation; we were in favor of the prevention of waste; but we were opposed, and filed notice of our opposition to this so-called statewide proration. At the hearings right in this room we said we thought it was economically unsound; we thought it would be a failure; we thought it would have the effect directly opposite to what was hoped for.

Q. In other words, Mr. Nazro, you assumed the attitude of being perfectly content so far as your company was concerned with the conditions as they were, so far as the law was concerned?

A. We were content with the law.

Q. Well, were you content with the conditions which confronted the oil business?

A. No; we saw too much oil being produced.

Q. Well, what did you do, if anything, to better the conditions?

A. May I go back a little ways in history?

Q. Yes, sir.

A. In about 1923—1922 or 1923—there was a great cry and hue that we were not going to have any more

oil, that we must conserve our natural resources so that we would have a future supply of oil. Even President Coolidge had a committee that issued a manifesto or article about it. Following that, every company in the business thought, "Well, maybe there is something in this cry of woe; maybe we won't have any more oil," so they all hired geologists, and geophysicists, and the refineries got busy and put on additional chemists and increased their refining capacities, and the producers who did not have enough money they borrowed it, and most anyone with a fountain pen and a desire only, took it to New York, and got into the oil business. As a result of that concentrated effort to overcome this cry of "Wolf! We won't have any more oil," there was produced a tremendous amount of oil in the succeeding five or six years. We saw the handwriting on the wall, so far as our company was concerned, several years ago, and when this first proration theory was talked of, we urged that the remedy for that overproduction was to stop drilling. If you want to curtail the production of wheat, stop planting wheat. The same thing with oil; if you want to curtail its production, stop drilling. We not only urged it, but we did what we preached. We have drilled in the last four years no well that we were not called upon to drill for the protection of our property or leasehold interests. We believe what we preach, and we have acted that way.

Q. Well, then, if you believe that that is a remedy, to stop production, don't you feel that that is utterly impossible under agreements?

A. No. You don't need to make any agreement. Our company today could produce many more barrels than it is producing, many more. I don't believe there is a company in the State that has as much potential production acreage as ours, and that is doing as little drilling in proportion to its acreage.

Q. Now, on this gas business again—

The Chairman: It is now 12 o'clock. I would suggest that we recess at this time until 1:30.

(Upon motion duly made and seconded, the Committee on State Affairs recessed until 1:30 p. m.)

Tuesday Afternoon—1:30 O'clock.

Questions by Senator Woodward.

Q. Mr. Nazro, I believe you say that it is your policy and the policy of your company to not only observe the conservation laws, but that you believe in them?

A. Yes.

Q. In speaking of conservation laws you have reference, of course, to conserving the natural resources, whether it is oil or gas?

A. Gas.

Q. And is it your idea that should be limited, that is, the conservation law should be limited to acts or omissions which developed physical waste as contradistinguished from economic waste?

A. Yes.

Q. Do you or not draw a distinction between physical waste and economic waste?

A. Necessarily so.

Q. In your opinion then the two are clearly divisible?

A. Yes.

Q. One can be easily distinguished from the other?

A. Yes.

Q. Is it your idea, in speaking of economic waste, you would mean that the production of oil or gas over and above the current consumption, or the requirements for current consumption would be physical or economic waste?

A. It might be economic waste temporarily, and yet it might be an economic advantage over a period of time. The element of price enters into it so closely.

Q. That is the distinguishing feature between the two subjects, however, isn't it?

A. Is the price?

Q. And in speaking of economic waste, it is, I think, generally accepted that you have reference to the production of this product, or any product, over and above the current demand for consumption?

A. That is economic waste?

Q. Yes, sir. In speaking of economic waste it is generally accepted as having relation to the production of any commodity over and above the reasonable current demand.

A. Not always, Senator. One man might, in looking into the future see market conditions very much better than another. He might wish to produce a large quantity of some

commodity at that particular time in order to take advantage of a situation which he might foresee.

Q. Mr. Nazro, I did not mean by the question to state that that was an economic waste, but I say it is generally referred to as an economic waste?

A. Oftentimes, yes.

Q. As distinguished from the other?

A. Oftentimes, yes.

Q. Not whether you think it is, or might be, or might not be?

A. Yes.

Q. So that, in dealing with the question of physical waste, we approach that from a different angle altogether?

A. I do.

Q. Now, then, that being the case, I want you to listen, please, sir, to these definitions of what some, —at least I do,—understand to be physical waste and see if it fairly covers the field of physical waste?

A. All right.

Q. You are familiar, of course, with waste as now defined by the statute?

A. Yes.

Q. Now then, "waste incident to or resulting from drilling, equipping, locating, spacing or operating wells as to reduce or tend to reduce the ultimate total recovery of crude petroleum oil, or natural gas, from any pool or area." That would refer to physical waste, wouldn't it?

A. And it would also refer to economic waste because you include the pool or area instead of the unit. Which must be considered as the individual lease. We do not make a lease contract with a pool, we make it with an individual, the owner of that individual tract of land.

Q. Mr. Nazro, the question I asked really was not so much as to whether you construed a pool or area. Even if you confine it to one well, that is dealing with physical waste.

A. Yes, but when you make it so embracing as to include the pool oil area, you cover too much territory.

Q. Well, if it resulted from drilling a well, it would be physical waste wouldn't it,—one well?

A. If they drilled that well faultily, it would.

Q. If it was with reference to

equipping that well it would be physical waste?

A. If they equipped it faultily.

Q. And locating it, if it is a faulty location?

A. No, sir.

Q. Right on top of a salt water dome, or where it would encounter salt water?

A. Who is going to determine that?

Q. I don't know who, but I presume it has been done, hasn't it? They have drilled right square dab into the Atlantic Ocean, haven't they?

A. Almost.

Q. Instead of an oil pool?

A. Yes, sir.

Q. That would have reference to physical waste?

A. You mean to drill?

Q. Yes, or drill too far into the sand, or drill into salt water?

A. That is true.

Q. Then that would relate to the spacing or operating a well?

A. Not to spacing of wells.

Q. Not to spacing of wells?

A. No, sir.

Q. Then it is your idea that wells should be drilled as close together as you can get them together?

A. No, sir, there is too great a fire hazard.

Q. That would result in a physical loss?

A. It would result in a physical waste and damage to your property and possible damage to your neighbor.

Q. Then I have called your attention to every feature of that that could relate to a well, as well as two wells, so that relates to physical loss, doesn't it?

A. Yes.

Q. Now, then, the next one: "waste incident to or resulting from the unnecessary,"—mark the word unnecessary,—"inefficient, excessive or improper use of the gas, gas energy, or water drive of any well, pool or area." That deals with physical waste, doesn't it?

A. Of an unknown quantity.

Q. It uses the word "unnecessary."

A. Unnecessary, and it speaks of unknown quantities.

Q. I do not find that here.

A. Those things which you men-

tion, are unknown, not definitely known.

Q. That has reference to physical waste, doesn't it?

A. Yes, sir, but I don't think it is applicable.

Q. Now, then, the next one, "surface waste, including unnecessary or excessive surface losses or destruction of crude petroleum, oil, or natural gas, without beneficial use." That would be physical waste?

A. Yes.

Q. The next is underground waste, "including waste incident to or resulting from any act or omission which reduces or tends to reduce the ultimate total recovery of crude petroleum oil, or natural gas from any pool or area."

A. If you put that law in, Senator, the way it is written there, it would be you would have to drill your wells very closely together to get the ultimate barrel of oil from the property. That might be most uneconomical.

Q. Would it be physical waste?

A. No. You might do that at a very great expense and not waste a barrel of oil. That would be an economic waste if the price of oil was low. If the price of oil was high it might justify a producer to drill those wells very closely, if it were not for the fire hazard.

Q. Mr. Nazro, if you produce oil that can not be put to any beneficial use, it most assuredly is a physical waste of that oil, isn't it?

A. Yes, sir, it might not be put to some beneficial use right on that very day.

Q. I am talking about at any time?

A. We can't say what uses this oil is going to be put to in the future.

Q. I am not arguing that, but it is a physical loss.

A. It might seem so for the time.

Q. If it is never put to beneficial use and is permitted to burn or evaporate or soak into the ground or flow down a stream?

A. That is waste.

Q. That is what I am talking about.

A. I agree with you entirely.

Q. It may result in economic loss to somebody, but it is physical waste?

A. I agree with you entirely.

Q. From those definitions I have given you, do you construe them as relating to,—whether good or bad,—physical loss?

A. I think practically all of them refer to physical loss excepting in the spacing of wells. The reason as I understand it for the present rule in regard to the spacing of wells was for the prevention of fire.

Q. Now then, as intended by this act, those definitions I have given I intended to include permitting the escape into open air of natural gas except as may be necessary in the drilling or operation of wells. That would be physical waste, wouldn't it?

A. That has to be modified somewhat, Senator.

Q. That would be physical waste?

A. Yes, sir, but if limited to that it would be an unjust rule because—

Q. (Interrupting) That is just one exception of the law. It includes that particular thing, it does not exclude everything else.

A. May I make myself a little more clear?

Q. I would be glad for you to.

A. There is quite a percentage of gas held in solution with the oil in the ground. This fluid oil and gas is under pressure very much the same as the water in a White Rock bottle, when you open it and pour the water in the glass you notice a lot of bubbles.

Q. We don't know anything about that?

A. You used to in the days gone by.

Q. Oh, sure.

A. Now, as that oil is brought to the surface, it expands and releases a lot of the gas which is held in the solution. It does not release all of it immediately but it releases a large part of it when it is first brought out and you will always have the presence of gas which has been in the oil, in the structure under pressure, when it is released and brought to the ground.

Q. That is necessary in the drilling and operation of a well?

A. Yes.

Q. What I read to you was permitting the escape into the open air of natural gas, except, as may be necessary.

A. That is all right.

Q. In the drilling or operation of a well?

A. Fine.

Q. To permit that to escape except where necessary would be waste?

A. We try to operate our property on that basis.

Q. Drowning with water of any strata capable of producing oil or gas, or both, in paying quantities, that would be physical waste?

A. Yes, excepting where the water comes from below, or from the side, and washed the oil to your well hole, washes the sand probably, and helps you recover the oil?

Q. Then it would not be drowning the oil?

A. No, sir, it would be helping it, not drowning it.

Q. That would be beneficial?

A. Yes.

Q. Well, then, after having read these various definitions to you I will ask you to state if it is not your conclusion from having heard them that they relate to the question of physical waste?

A. I think they do.

Q. And you endorse — — —

A. (Interrupting) The exception of area for who?

Q. That is just in — — —

A. (Interrupting) Put that to a well.

Q. If it applied to a well it would mean physical waste?

A. Yes, sir.

Q. Then, if I understand you, you concur with those who believe that physical waste should be prevented?

A. Yes.

Q. Could you give an estimate, Mr. Nazro, or would you make any rough guess as to what percentage of oil could be saved if all of the operators of the various fields or pools in Texas were to strictly comply with our present conservation law?

A. It would be purely a guess. There are so many different pools now. And there are so many new pools to be found that it would be the rankest kind of a guess.

Q. Well, in operating your own properties if you do not observe these conservation majors so as to prevent physical waste, assuming you did not observe them, what percentage would you lose?

A. The percentage would correspond to our negligence.

Q. But I am assuming you do not permit those things?

A. Then if we do not permit them we would recover quite a large volume of oil in these wells, more than we do.

Q. What would you say would be the percentage of gain to you by observing these laws?

A. That would be largely a matter of guess.

Q. It would be twenty or twenty-five per cent?

A. I think probably it would.

Q. Then if that is not observed there would be twenty or twenty-five per cent less production than there would be if they were observed?

A. In the course of time, yes.

Senator Woodward: That is all.

Senator Poage: Mr. Chairman, may I ask some questions?

The Chair: Proceed, Senator Poage.

Questions by Senator Poage.

Q. I believe you testified this morning there was less oil being produced in the United States at the present time than is being consumed or used?

A. I don't know exactly the amount but it must be very close, there may be a little less being produced.

Q. We are running from storage are we not at the present time and in the United States?

A. I think we have been for the last six months or a year.

Q. Then the last six months we have been using some out of storage?

A. Yes, sir.

Q. That would indicate that we are not producing quite as much as our domestic demand requires?

A. That is true.

Q. We are not producing in the United States as much oil today as we were two years ago?

A. No, in 1929 I think we had rather a larger production. I think I have a memorandum here of that. You know I just got the notice to come up here yesterday and I threw in a few odds and ends.

Q. Well, if you have it I would like to have that but if you have not that is all right.

A. No,— according to the daily average production of the crude oil in the United States as shown

by the Oil and Gas Journal's Weekly chart we are not producing as much oil now as we did in 1930.

Q. And 1930 we did not produce as much as we did in 1929, did we?

A. I have not the 1929 figures here, but I think 1929 was a pretty big year.

Q. Probably the largest the oil industry has ever known from a production standpoint, wasn't it?

A. It was very large, yes.

Q. Then we can safely say that the production of oil has not increased since 1929 to the present time?

A. In the United States?

Q. Yes, in the United States.

A. Oh, yes, but it is the producers who have been more conservative, they are trying to save.

Q. What about the imports of oil at that same time?

A. I think the imports have been cut down quite materially.

Q. So we are not now importing as much oil today as we were two years ago?

A. No, sir.

Q. So the total available oil for sale in the United States is not as great as it was two years ago?

A. Oh, yes, it is.

Q. All right, that is what I am getting at. How do you account for that fact?

A. The potential production of a great many fields that can be brought on to production.

Q. That is the way you account for the drop in the price of oil?

A. Not altogether.

Q. There has been a reduction in the price of oil in that same period of time?

A. Yes.

Q. Which has amounted to about sixty-five or seventy-five per cent of the value of the oil as compared to what it was two years ago?

A. Yes.

Q. During that very period in which there has been no increase in the actual production, but there has been a great increase in the potential production. We have had some witnesses here who have tried to explain the drop in the price of oil by reason of the increased production. In your opinion is the increase in production of actual oil what has caused the drop in price?

A. The increased potential production is one thing. The inability

of the purchaser to pay the money is another thing. The necessity of of the seller or producer to sell his oil is another thing. There are many factors that enter into it.

Q. Now that necessity of the producer or driller or land owner, call him the producer, the necessity of the producer to sell, as a reason for the drop in the price of oil, isn't that a result of the increased potential? In other words, if we had not produced the potential there would not have been these wells that would have required the sale of oil?

A. You are probably correct.

Q. So, that probably the largest single factor in the drop in the price of oil is the increased potential production, or the increased available ability to produce oil in the United States?

A. Yes, sir.

Q. Then you would not say it is the four hundred thousand or a half million barrels of oil that is being produced in East Texas that has influenced the price?

A. Not that alone, that is one factor.

Q. But that is not nearly as important with the oil business as the fact that if that field was opened wide open it could produce three quarters or a million barrels of oil?

A. That taken in connection with the other factors, they are all factors.

Q. Suppose we were not producing anything whatever out of East Texas, and we had twelve hundred wells down on the sand that might be opened up at any time, do you think that would affect the price of oil, the fact that the oil industry knows these wells may be opened up?

A. Yes, sir.

Q. In other words, oil in a proven field has a bearing on the market just as actually as oil in storage, does it not, Mr. Nazro?

A. Not to quite the same extent.

Q. But it is just as real a factor?

A. It is a factor.

Q. Of course I recognize there is cause to bringing the oil up to the top of the ground and putting it in storage, and the fact that oil is more immediately available, that does directly inclose the margin, it is just as real?

A. Not quite as real because the

potential is not definitely known, the oil in storage is known.

Q. Would it be an unreasonable comparison to say that the potential or probable production of new oil fields has the same effect on the oil market that the weather report has on the cotton market?

A. I am not in the cotton business but I think it would have somewhat the same effect.

Q. You recognize at the present time that our cotton market is not only affected by the supply of spot cotton that is in existence in the world, but also by the weather report all over the country which give an indication of a large cotton crop which will be produced this fall?

A. Certainly.

Q. Those things have a great influence on all prices of cotton?

A. On anything.

Q. And those same things, the probability of producing oil in a given field will have an influence on the price of oil?

A. Yes, sir.

Q. So you would not say that it is merely increased actual production or potential, because that is not production, and you would not testify here that the drop in the price of oil is primarily caused by the increased production?

A. No, but it is a factor.

Q. You wouldn't say that is the primary or the most important cause in the drop of oil?

A. It is almost coincident or parallel with the potential.

Q. You mean it is relatively as the same importance as the potential?

A. It is almost, because one is a reality, it stares you in the face, and the other is a little hazy.

Q. But there has not been any increase in actual production?

A. No material increase in actual production.

Q. Then if there has not been any material increase in actual production the increase in actual production could not have any effect on the price of oil?

A. It is a factor.

Q. But if there has not been any change in the production, while of course it is a factor in the price, or in the market, how could it change the price if there had not been any change in that factor?

A. I think your reasoning is sound, but markets are very delicate

things. They are susceptible of whims and psychology in the air.

Q. Well, that being true, if the conclusion is sound then—

A. Then something must be wrong with the reasoning, we have guessed the market wrong.

Q. Don't you think the reasonable thing to do is to guess or assume that the influence on the market has come from some other source?

A. That is possibly true, but it is still a guess; forecasting a market is always a guess.

Q. We are not forecasting a market, we are trying to analyze the present market. I am not, from legislative standpoint, interested in what the market is going to do, of course as a citizen I am interested in seeing the price of oil go up, and so are you, but I am not interested in doing any more than to see if we cannot remedy the situation.

A. Suppose I mention several factors; there is the large amount of oil in storage, which was an increasing burden. The owners of that storage realized that it was not necessary, that it was costing them a lot of money in taxes and insurance, in the upkeep of their tank farms and all of the incidental expenses to carry that storage, that made a very heavy over burden. When the possibility of additional production is measured the necessity for carrying that storage is taken away, therefore the owner of that storage says there is no necessity of my carrying such storage, it costs me money I will sell that tank oil, cut down my tanks, quit paying the taxes and I will save some money, because we have all of this oil in sight, I can buy oil or I can produce it. To buy or produce oil are two different ways of acquiring it. Then when the producer of oil saw all of this potential production, he saw the unrest created by this proration propaganda, or state wide proration, he studied the psychology of the situation and he said I can buy oil cheaper and I will not pay the price. Now, when we get to East Texas particularly, when the Railroad Commission issued its notice giving an outlet to that field of about ninety thousand barrels per day there were numerous operators in that field who had spent their all in drilling a few wells on some property, they had no money to pay their labor and their other incidental expenses. They said we

can't live under that small amount of outlet, we will have to sell our oil at what we can get. I had numerous of them, numbers of them to come into my office and offer to sell their oil at any price at which I would put on it, name your own price.

They said we will deliver the oil up to the ability of the well. I said yes, but you have an order of the Railroad Commission limiting you. One man said I can get an injunction properly, I will have no difficulty about that. It will take me longer to have my attorney to write the order and ask for the injunction than it will for the Board to issue it. Now there were numbers of them who went to buyers, every buyer they could think of and said buy my oil at your own price, any amount, I have to sell. So the psychology of that order hurt the price of oil in East Texas, and I think it hurt it all over the State.

Q. Now how did that order affect the men in West Texas?

A. The buyer refused to buy the oil in West Texas, he said I am going to get all I want, I will go into storage now because we can buy it in the future.

Q. And that storage had cost the man who had it from a dollar to a dollar and a half?

A. It makes no difference what a thing cost you. You may pay a hundred dollars a share for some stock and today you would have to take twenty for it if you want to realize on it.

Q. That storage was high-priced storage?

A. Some of it was.

Q. Don't you believe from your knowledge of the oil business that you and everybody else that has got it ought to fill up on ten-cent oil?

A. No, sir.

Q. Why?

A. The cost of building the tankage, acquiring the land for the tank farm.

Q. But if you have it. You have some empty storage, I mean that?

A. If I had some empty storage, yes.

Q. This is a good time to fill up?

A. It might be and it might not be. If you can buy it cheap enough, if you want to speculate on it, the same as you speculate on the market.

Q. I realize it is a speculation when you buy oil. When you bought the oil you had in storage now it was a speculation but it was bad?

A. Oh, we didn't buy it; we produced it.

Q. It cost you money to produce it?

A. Yes, sir.

Q. I understand your company does not buy oil?

A. We are what might be called a producing company.

Q. If I could find somebody to finance me to go into the oil business wouldn't you tell me that it was a good time to buy the oil and put it in storage?

A. If you had the tankage and owned it then I would say that it would be a good thing to do, but I certainly wouldn't advise you to build tankage.

Q. Now with that in view could you see any reasonable ground for the amount of storage to decrease, I believe you say it would be a good thing for the industry if it was greatly decreased. Do you see anything to make it decrease appreciably in the next few months?

A. Not at the present time, and our company does not care to add to its storage.

Q. Because you are producing and you are not buying any oil and you do not care to go out into the market and buy oil at any price?

A. That is it. We have produced on our leases to keep our contracts on the land.

Q. You have a sale of all you produce?

A. No, sir, we do not, I am sorry.

Q. What are you doing with the rest?

A. Putting it in storage and we are shutting in wells.

Q. You are increasing your storage at the present time?

A. I am sorry to say we are, I wish we were not.

Q. Do you sell to anybody other than the Gulf Refining Company?

A. Yes, I sold seventy-five hundred barrels a day of West Texas oil not very long ago for sixty days to the Humble Company; thirty-seven hundred and fifty barrels a day for sixty days to the Shell Company and a thousand barrels a day to the Sinclair Company, a special kind of oil.

Q. That is only when you have some oil that you do not have a

special need for and want to get rid of the production of certain wells in certain fields?

A. We have to sell our oil, we can't keep on producing it unless we sell it.

Q. But as long as the Gulf Refining Company can use it you do not sell to anybody else?

A. If somebody would pay us a better price I would. My job is to try and make money for the Gulf Production Company and if the Gulf Refining Company don't pay as much as the other fellow, the other fellow is going to get our oil.

Q. The Gulf Refining Company makes a practice of paying you what anybody else will pay you?

A. If they want our oil.

Q. They usually want your oil?

A. They have got to have some oil.

Q. About what per cent of your oil do you sell to the Gulf Refining Company?

A. About ninety-five per cent.

Q. About what per cent of the oil used by the Gulf Refining Company do they get from the Gulf Pipe Line Company?

A. A hundred.

Q. What is the relationship between the Gulf Refining Company and the Gulf Production Company, is the stock ownership identical?

A. Yes, sir.

Q. And it is then also identical with the stock ownership of the Gulf Pipe Line Company?

A. Yes sir.

Q. The stock ownership is identical in the three companies?

A. Yes, sir.

Q. What about the directors in the three companies, are they the same?

A. No, sir.

Q. Is there a separate board of directors?

A. Yes, sir. For instance I am a director of the Gulf Pipe Line Company and the Gulf Production Company but not a director of the other company.

Q. You are a stockholder in the Gulf Refining Company?

A. No, sir.

Q. Are you a stockholder in the other companies?

A. All of the stock of all of the companies is owned by the Gulf Oil Corporation.

Q. That is the Delaware Corporation?

A. No, sir, the Gulf Oil Corporation is a Pennsylvania Corporation.

Q. The Gulf Oil Corporation of Pennsylvania is a holding company and is not engaged in production or pipe lining?

A. No, the Gulf Oil Corporation of Pennsylvania holds all of the stock of its subsidiary companies.

Q. But, I say, the Gulf Oil Corporation of Pennsylvania is a holding company, and is not engaged in production or pipe lining, it is simply a stock holding corporation?

A. I think it is a holding corporation, but I have never looked it up; I have never looked at its charter, that is none of my business.

Q. These three companies we mentioned, are they Texas corporations?

A. Yes, sir, the Gulf Refining Company of Texas.

Q. The three that operate here are Texas corporations?

A. Yes, sir.

Q. And in other states there are similar set ups I suppose?

A. Yes, sir.

Q. The Gulf Oil Corporation of Oklahoma that Senator Pollard referred to, is I assume, an Oklahoma corporation?

A. Yes, sir.

Q. None of these three corporations import any oil?

A. The Gulf Refining Company?

Q. Yes, all those three?

A. I don't know whether it does or not, the Gulf Refining Company of Texas; it may import some. We have the South American Gulf Oil Company which has some property in Venezuela.

Q. That is one of the subsidiaries of the Gulf Oil Corporation?

A. Yes, sir.

Q. The Gulf Oil Corporation does import to some of its subsidiaries to the United States?

A. Yes, sir.

Q. Do you know whether the concessions that are operated by the Gulf Oil Corporation subsidiaries in Venezuela and other foreign countries are for a limited period of years?

A. I am not really familiar with those concessions. You see my job is with the Gulf Production Company and the Gulf Pipe Line Company.

Q. Yes, but unfortunately with reference to securing information in

the Legislature we find that is true with all of the companies except the Texas Company?

A. Yes, but I really don't know.

Q. Oh, I do not say you do, I did not mean that. I say it is unfortunate with every other company except the Texas Company that their representatives do not know those things. We have not found anybody who knows or will answer except the Texas Company's representative does seem to know.

A. Well, he is the big boss.

Q. There is no one in Texas we could get that could tell us about that?

A. I really know of no one. You see, I was just hired by these people, I am just a working man.

Q. We are hired by the people of Texas, trying to find out what to do about this situation.

A. I know this from hearsay: That the Venezuelan Gulf Oil Company has some property in Venezuela that is producing property; it produces some oil there. I think it has a potential production by opening up its wells of very close to one hundred thousand barrels a day. It was producing during the month of June—I haven't the July figures, but I remember this from the June figures—about fifty-four thousand barrels a day. That oil is brought to the Atlantic seaboard and a little of it may be brought to Port Arthur, but I think it is a very small amount.

Q. You don't consider that a very serious competitor with your Texas production company, your Gulf Production Company in the sale of oil to the Gulf Refining Company?

A. No, but if we didn't have that production down there I might be able to sell more oil to the Gulf Refining Company; it would be that much out of the picture if that was not there.

Q. That potential that exists in Venezuela has an effect on the price of American oil similar—not in quite as large a degree, but similar to the potential that exists in the West Texas fields?

A. The same as the potential that exists in Russia.

Q. And the greater the potential in those countries the lower the price of oil in the United States, if everything else remains equal.

A. Yes, sir, the oil market is a world market.

Q. And the greater the potentials you develop in other parts of the United States, the lower you can expect the price of oil to be in every part of the world?

A. Yes, sir; I think every barrel of oil produced in one part of the world has an effect on the production in another part of the world.

Q. And not only every barrel of oil produced, but every barrel of oil that is reasonably capable of production, wouldn't you say, Mr. Nazro?

A. I think so. It is just the same as the wheat crop in the Argentine affects the wheat crop in this country. The wheat crop in Russia is reflected here.

Q. Now, I am trying to get at this: Some of the witnesses seem to draw a distinction that oil in storage affected the market and that oil in the ground could not affect the market. Do you think that is a sound distinction?

A. It doesn't sound good to me.

Q. Now, as to this oil in steel tankage, I believe you said it loses about one per cent per annum?

A. That has been our experience in the last year.

Q. Do you know whether your experience in the last year is better than the average in holding oil?

A. We try to make it the very best we can.

Q. But is it your opinion that you are succeeding better than the other companies?

A. I have not asked the other men what they are doing, but I have been fighting evaporation for several years.

Q. You have been finding out what they have been doing?

A. Not on the other man's property, but we have been watching our own and keeping tanks tight.

Q. When the Standard of New Jersey develops an improvement in the industry, you try to find out about it?

A. Yes, sir.

Q. And if it is not protected by patent rights, you apply it to your company?

A. Try to.

Q. Haven't you tried to do that in storage—haven't you tried to keep up with every advance in storage?

A. Yes, sir.

Q. Don't you know whether you have kept up with it?

A. I think we have kept up fairly well.

Q. Do you think others have done better?

A. Possibly so. If they have, I want to find out if I can.

Q. Well, would it be safe to say that your experience of one per cent a year would not be out of line with the loss over the industry—that it would not be very much over one per cent per annum?

A. That is an average grade of oil?

Q. Yes.

A. That is to say, if it is in steel tanks, thoroughly settled oil, not fresh oil—in tight steel tanks—I mean the roofs were tight, the guage thatches are kept closed, and that everything is done to prevent loss by evaporation.

Q. Then, you think it would be possible under proper regulations of the Railroad Commission or a Conservation Commission or an agency of the State government that might have power to regulate storage to minimize losses down to one per cent per annum?

A. I don't know whether they could minimize the loss on all the oil that low, because on some of the very light oils the evaporation would be greater; they are more volatile.

Q. What I am getting at is whether there is any physical waste in storing oil in steel storage—do you consider there is any waste in it?

A. There is a big economic waste, however.

Q. I am not considering economic waste.

A. No, as a physical waste I think it is immaterial.

Senator Poage: That is all.

Senator Woodward: Mr. Chairman.

The Chairman: Senator Cousins had asked leave to ask some questions.

The Witness: I want you to get the distinction that oil in steel storage, that one per cent, is what I call thoroughly settled oil; the gas is all out.

Senator Poage: It has been run a long ways?

A. Yes, sir, and has been in tanks until the fresh gas is worked out; after it has been handled four or five times the fresh gas is practically all out.

Questions by Senator Cousins.

Q. Mr. Nazro, I believe you say you are satisfied with the present conservation law and believe it is a good law?

A. Yes, sir.

Q. Have you any suggestions for improving it?

A. No, sir. I don't believe I have.

Q. How much, relatively speaking,—is it expensive to enforce?

A. I don't see why it should be.

Q. If some producers were inclined to violate the law, would it be hard for the commission individuals who are enforcing the law, would they have to have lots of help?

A. I don't think so.

Q. It could be arranged—the fields could be arranged, and the pipe lines too, so it could be determined who had violated the law?

A. I think so.

Senator Cousins: I think that is all.

Senator Hopkins: Mr. Chairman: The Chairman: All right, Senator Hopkins.

Questions by Senator Hopkins.

Q. Mr. Nazro, unfortunately I did not hear the first part of your testimony this morning.

A. I am sorry.

Q. So am I. I state this because if I happen to repeat the same line of testimony you will pardon me.

A. Yes, sir.

Q. I understand you have declared yourself and your company's policy as being in opposition to including powers of market demand in any conservation statute that should be enacted; is that correct?

A. Yes, sir.

Q. May I ask, is that based upon the reason that you fear it would be tantamount to price fixing?

A. Yes, sir.

Q. And would lead inevitably to a price fixing board, probably?

A. Yes, sir. If you can fix one price, what is to prevent you from fixing any price?

Q. I heartily concur with you. I merely wanted to get the benefit of your view. May I ask whether you are sufficiently familiar with what is known as the Woodward bill as to say whether or not in your opinion the powers of market de-

mand would be fixed in this commission, although not specifically set out in so many words?

A. I think it would be.

Q. Do you think that would be the practical operating effect of that bill?

A. I think it would be, although I have not studied that bill closely.

Q. Yes, sir.

A. I really should not pass an opinion on anything that I have not studied closely.

Q. Well, I merely asked for your opinion based upon your understanding of the bill at this time.

A. It is rather a quick opinion.

Q. All right.

A. I would rather not pass an opinion on a bill which I had not studied and conferred with our attorneys about and thought over to see just what the wording means.

Q. From the standpoint of your company's experience with the present Railroad Commission and the laws under which it now operates, would it be your opinion, Mr. Nazro, that true conservation could be obtained under present existing agencies as well as under a newly created agency? The point I make is this: The Legislature is confronted here with the direct question as to whether or not it should create a new commission or new governmental agency to administer our conservation laws or to put that power or additional power in the hands of an existing agency. I ask you for your reaction as to whether or not a new agency is necessary to administer the conservation laws?

A. I have no fault to find with the present agency.

Q. You think it is entirely within the bounds of reason and possibility and probability that it can be administered satisfactorily in the future?

A. I think so. I mean in any agency the ability is governed by the men in it.

Q. Then it would not be your opinion that there is a crying necessity for a new commission to administer conservation?

A. You mean another one?

Q. Yes.

A. No, we don't need any more.

Q. Did you say that the Woodward bill provides for a new one? That is the reason I am asking the question. Mr. Nazro, I have always subscribed to the general theory that

it is impossible to legislate morals into men and by the same token it would be impossible to legislate prosperity into any industry. Do you think that is a true line of reasoning?

A. I think so. I thought that had been taken as axiomatic for a good many hundred years.

Q. And don't you think that a Legislature that has that only in mind for the sake of expediency is pursuing the wrong line of thought and endeavor?

A. I think it is futile.

Q. Yes, sir. Just one other question, Mr. Nazro. I am not very familiar with the anti-trust laws of the State, but it has been suggested and it occurs to me as being entirely reasonable that if a new commission is set up and created to administer our conservation statutes and thereby regulate production it would be in contravention of our anti-trust laws and would set up a means by which the industry could, if it saw fit, shield itself behind a new commission and flaunt the anti-trust laws. Would it be your opinion that that could arise?

A. Senator, the anti-trust laws of this State have protected many industries; they protected our industry when we were young. I know of no industry in this State that they have not protected, and I think we may yet need their protection.

Q. Yes, sir.

A. And I don't care to brush them aside.

Q. I heartily concur with you and I merely ask your conclusion, based upon that premise, if it would not be entirely possible under the terms of a new commission cloaked with authority to state what would be production.

A. I would prefer to have no commission if it meant the discarding of our anti-trust laws.

Senator Hopkins: I believe that is all.

Questions by Senator Woodruff.

Q. Have you read Adam Smith's "Wealth of Nations"?

A. No, I am not very well educated.

Q. Do you know anything about Mr. Ely, or Mr. Taussig, or Mr. Ricardo?

A. No, sir.

Q. Do you believe, Mr. Nazro, in

unrestrained competition in the oil business?

A. And in every other business.

Q. You believe in the anti-trust statutes of Texas, I believe you stated a while ago?

A. Yes, sir, they protected us; we would have died aborning if we had not.

Q. Is it your conception of the anti-trust statutes of the State and Federal Governments that they assure some competition to the weak against the strong?

A. I think so.

Q. That really is the theory and the justification for the anti-trust statutes, State or Federal?

A. I understand that was their purpose, so competition could be open.

Q. Have you ever heard the economic theory advanced that unrestrained competition in its highest form reached monopoly?

A. I am afraid the question is a little bit too deep for me. It might.

Q. What is the position of the Gulf Oil Corporation in the world oil industry at this time? Is it relatively strong or relatively weak, or just barely holding out?

A. It is relatively strong.

Q. Well, I am going to ask you this question, as a layman, and if it leads you to an improper expression, you indicate it and I will withdraw the question. Take the Texas Company, for instance, is its position strategically as strong as an agency in the world market at this time as is the Gulf Oil Corporation of Pennsylvania?

A. It is probably more strategically situated from a market standpoint, but not from a producing standpoint.

Q. Taking into consideration all the ramifications of fair activity, is the Gulf Production Company in a weaker or stronger position than the Texas Company?

A. I am not familiar with the Texas Company's financial situation, which has a big bearing.

Q. Who controls the policies or makes the policies of the Texas Pipeline Company?

A. I expect the Board of Directors of the Texas Pipeline Company; I don't know.

Q. Who holds the majority of the stock in the Texas Pipeline Company?

A. I don't know.

The Chairman: Are you referring to the Texas Gulf Pipeline Company or the Texas Pipeline Company?

A. I was asking about the Texas Pipeline Company.

Q. I meant the Gulf—the Texas Gulf Pipeline Company.

A. Don't get us mixed up with the Texas Company; ours is the Texas Gulf Pipeline Company.

Q. Who owns the majority of stock in the Texas Gulf Pipeline Company?

A. The Gulf Oil Corporation owns all of the stock in the Texas Gulf Pipeline Corporation.

Q. Do you say the directors make the policy when the stock is owned by the Gulf Oil Corporation of Pennsylvania?

A. Yes, sir.

Q. Would your same answer apply with reference to the Gulf Production Company of Texas?

A. Yes, sir.

Q. The directors of that corporation in Texas make the policies of that corporation?

A. No; all of the directors of the Gulf Production Company formulate the policy of the Gulf Production Company; the directors of the Gulf Pipeline Company formulate and indicate the policies of the Gulf Pipeline Company.

Q. Who are the directors of the Gulf Pipeline Company and where do they live?

A. Mr. W. L. Mellon is Chairman of the Board.

Q. Who is Mr. W. L. Mellon and where does he live?

A. In Pittsburgh; that is his home. Mr. F. A. Leovey is President of the Company. Mr. John Nelson is Treasurer of the Company.

Q. Where do they live?

A. In Pittsburgh. I think R. G. Mellon is a director, and Mr. H. L. Stone is a director.

Q. Where do they live?

A. They live in Pittsburgh. I am also a director. I have not a list of all the directors with me, but I think that is about the five directors.

Q. Who is the largest single stockholder in the Gulf Corporation of Pennsylvania, if you know?

A. I don't know.

Q. Who are the directors of the Gulf Oil Corporation, in addition to those whom you named?

A. I don't know the names of all the directors. I am sorry I didn't bring the list that I had. I can send you one, if you like.

Q. It would be interesting, I think, for the committee to know who the directors of the three corporations are, indicating where the names are the same, if they are the same persons.

A. I have a little booklet in my desk, I think, that has all that information in it, and I will be glad to send it to you.

Q. Now, I believe you said the Gulf Refining Company was not a Texas corporation.

A. No, I think the Gulf Refining Company of Texas is.

Q. You think it is?

A. I am sure it is.

Q. Known as the Gulf Refining Company?

A. Yes.

Q. You don't know that to be a fact?

A. I am quite sure of it.

Q. Do you know who are the directors of that company?

A. I have not the list of all the directors, but I will be glad to send it to you. This little booklet I spoke of has the whole list in it, I think.

Q. Incidental to the inquiry, if you know, does Andrew Mellon, Secretary of the Treasury of the United States, own any stock in the Gulf Oil Corporation or any of its subsidiaries?

A. He can't own any in its subsidiaries, because all of the stock of the subsidiaries is owned by the Gulf Oil Corporation. Whether he now has any stock or how much, I really don't know. I have always understood that the Mellon family were the large stockholders.

Q. Is it your understanding that the Mellon interests own a controlling stock in the Gulf Oil Corporation of Pennsylvania?

A. Yes, sir.

Q. Do you know whether or not that is true?

A. I think it is true.

Q. Going back now to the anti-trust laws, if you say the anti-trust laws, State and Federal, are desirable, if not to say necessary, for the purpose of enforcing some competition in the oil industry, and if you suspected that that competition was not as alive as it might be, would

you then think it desirable for the Legislature and Congress to further broaden the scope of those anti-trust statutes in the State and Nation?

A. I don't know just how they could be broadened, whether they could have more power or less power. I have not sufficient legal knowledge, and I am not a jurist, so when you come to discuss what the law should be, it is beyond my realm.

Q. Getting the predicate of the question before you again, if you suspected that competition was being stifled under the anti-trust statutes, State and Federal, as they now are written—I say if you suspected that condition to prevail, would you then be favorable as a citizen to a strengthening or a broadening of the scope of those statutes so as to give more competition?

A. Yes; but I can't suspect that when I can see every evidence of the keenest hearty competition in the oil industry of any business I know of; it is vicious, even, trying all the time to get a foothold in every line of business; it is keen.

Q. Well, if the anti-trust statutes at this time, Mr. Nazro, don't bring to struggling young companies, such as the Gulf once was, and which Gulf Company was protected and given a lease on life by virtue of those statutes, if those same statutes are not adequate at this time to give protection to similar struggling young industries within the oil business, would you favor legislation that would give them protection and give them a chance?

A. But, Senator, there is hardly a year goes by but what some new company springs up and grows strong. Every new field gives birth to what might be called a major or almost a major company.

Q. Well, don't they disappear from the horizon every year, these young oil companies?

A. They haven't done so yet.

Q. Well, there is a rumor current around the Capitol at this time that your company, either the Pipeline or the Producing Company of the Gulf, owned some acreage or leases in the Van pool at one time; is that true?

A. We still have some acreage right north of the Van pool, and we did have some acreage on the edge of what is now the Van pool.

Q. Is it producing acreage?

A. The properties north of the Van pool are producing.

Q. Well, did you not on the part of the Gulf in Texas give those properties and give the production from those properties to some other company or group to avoid entering into some sort of agreement with reference to that field?

A. Oh, I know now what you are talking about. We had an option. We didn't own those properties; we had an option to take them, and we did not care to go into it; we didn't care to exercise our option, so we let it go.

Q. You just failed to exercise an option?

A. I get you now; I know what you are talking about.

Q. Why was that?

A. We didn't see any particular advantage for us to do so.

Q. Was it because of that prospective agreement that the operators and producers in that area were about to enter into that you did not choose to exercise your option?

A. That may have had something to do with it. If we had exercised that option, we might not have gotten what was our fair share, and, of course, our fair share is what we can get.

Q. I see.

Senator Martin: I didn't get that last answer.

A. It was not a satisfactory arrangement to exercise that option.

Q. Did you ever, or anyone associated with you for the Gulf, ever discuss with anyone else that agreement when it was in the making, with reference to the production of the Van area?

A. I discussed it with our attorney.

Q. What did he tell you about it?

A. Well, he said, as I remember, "How will this affect your property if you exercise the option; what do you think about it?" We talked it over in a general way and decided not to exercise our option.

Q. Did he say anything to you in that conversation about the anti-trust statutes and their application to the agreement?

A. As I remember rightly he said it was a question that might have to

be settled, that there was some doubt about it.

Q. What is the storage capacity of the Gulf Oil Corporation and its subsidiaries?

A. You are covering too much territory now. You will have to come down to the Gulf Pipe Line Company and Gulf Production Company. That is, I can't answer, because I don't know.

Q. Well, you work with them, don't you?

A. No, sir. I haven't definite knowledge in regard to the storage capacity of the Gulf Refining Company even at Port Arthur, or what the storage capacity is at Venezuela, or at the various refineries along the Atlantic seaboard. I really don't know the amount of storage capacity that the refining companies have.

Q. Well, do you know whether or not that storage capacity is filled at this time?

A. No, sir, because I don't know what it is.

Q. Who does know that?

A. I expect Mr. Burger knows better than anyone else of the storage capacity of the refinery companies. He is the manager of the refineries.

Q. Who is he?

A. Manager of all the refineries.

Q. Where?

A. He has headquarters at Pittsburgh but he is on the road most of the time, or visiting one refinery or another.

Q. Well, Mr. Nazro, it would be pertinent information for your organization to have, wouldn't it, as to the potential capacity of the corporation's storage and the amount of oil that they have in that storage, for you to know what would be the best policy of the Gulf Production Company to pursue with reference to its storage, wouldn't it?

A. No, sir, I don't think that is relative.

Q. Well, you are operating for the benefit and profit of the parent company, are you not?

A. Not all together, not by a long shot. My job is to try to make money for the Gulf Production Company.

Q. But you said stock of the Gulf Production Company was owned by the Gulf Oil Corporation and whatever profits the Gulf Production Company would profit the corporation directly and entirely, would it not?

A. Yes, sir.

Q. All right.

A. It would, but my job is to make as good a record as possible in order to try to please my boss.

Q. Precisely. Then, how do you know with reference to the amount of oil to take and the amount of oil to store in the Gulf Production Company tanks and facilities to inure to the best advantage and profit to the parent company when you don't know anything about what the parent company has on hand, or what it is doing? I don't know anything about that, Mr. Nazro, and I am just fishing.

A. Well, I expect you have caught a dumb one. But really, that is not my business. It is easy enough to look at the Gulf Production statements and see whether it is making money, or whether it is losing money, and if we see that the cost of carrying this storage and tanks, and it is mounting up, and the insurance, all of these things is not beneficial to the Gulf Production Company.

Q. All right then, let's think about another little matter briefly. In order for the Gulf Production Company to make advantageous purchases of crude oil—

A. (Interrupting) We do not make purchases of crude oil. We produce it.

Q. We will take the pipe line. Does it buy oil?

A. Only incidentally, and as a matter of accommodation to royalty owners and a few people that are closely associated with them and are partners or co-owners in leases with the Gulf Production Company.

Q. The Gulf Production Company is a seller of oil?

A. Yes.

Q. You sell principally and primarily to the Gulf Refining Co?

A. Yes, sir.

Q. In order for the Gulf Production Company to know about the prices which it will contract to receive for oil sold, is it or not necessary for the Gulf Production Company to anticipate what sort of prices the Texas Company, for instance, will make on its sales?

A. On its purchases, yes, sir, and on its sales.

Q. And on its sales?

A. Yes, sir.

Q. Would it be advantageous to the Gulf Production Company as sellers of oil rather to anticipate, to know

what the Texas Company is going to do with reference to contract prices on sales?

A. Why, I think it would be quite advantageous to know what any competitor is going to do, I think it would be quite advantageous to know what any competitor is going to do.

Q. Would it or not be mutually advantageous to the Texas and the Gulf Production Company each to know what the other intended to do with reference to making sales prices?

A. I think it would in any business, if you can find out what the other fellow is thinking about, what he intends to do. Why if you are playing poker, you might as well look in his hand. It is the same thing. Look at his whole card. If you can look at his whole card you have quite an advantage, haven't you?

Q. Quite so.

A. I don't know whether you ever played poker, or not.

Q. Was it possible, under present conditions for Mr. Nazro of the Gulf Production Company and some one similarly connected with the Texas Company to have a private conversation about what they would do with reference to the sale of oil—

A. (Interrupting) The only thing is we do not do it.

Q. But would it be possible?

A. I haven't tried it.

Q. You are interested in making money, aren't you?

A. Sure, but how far would I get talking to the Texas Company man and asking him what are you going to do?

Q. Suppose he would come and ask you that question?

A. Then how far would he get? I would say "It is a beautiful day, let's play golf this afternoon."

Q. Notwithstanding your desire to make profit, a profitable showing for your company, you would not converse with the Texas Company man on that subject?

A. I might, if he would, but I don't think he would tell me anything. The competition is a little bit too hard.

Q. His competition is a lot worse than yours, isn't it?

A. Oh, yes.

Q. He ought to be more willing to have such conversation than you are, ought he not?

A. I don't think he would be any more willing to get any information

from me than I would be willing to get it from him.

Q. Mr. Nazro, that was just to lead up to this general question: Is it possible under present competitive conditions that there is any concerted action by reason of an understanding, written or implied, between the major companies?

A. I do not think there is any understanding either written, oral or implied between any major companies. I have never heard of one and I know there are none with our company.

Q. Now, I think you said this morning you know nothing about the Gulf Refining Company operations?

A. No, sir.

Q. As a practical oil man—

A. I know a little about it.

Q. Possibly you know in a general way then about this matter. In the posting of prices for gasoline products at the company's stations over the State, do you understand that the office force when an order is promulgated reducing the price of gasoline in the retail market, that the office force is given the substance of that order and charged with the duty of getting out the order and communicating it to the hundreds of retailers over the State,—do you know how that is handled?

A. I don't know how that is handled but it seems to me that if these retailers are customers that would be the natural way for it to be handled, for the wholesaler to tell the retailer "We have raised, or we have lowered our price." It would be the natural thing to tell your customer that. It seems to me that would be the perfectly logical way to do it.

Q. The manager of the refinery would communicate that to the manager of the sales department?

A. No, it comes back the other way. The buyer makes the price.

Q. The price of the gasoline products?

A. Yes, he really makes the price. He buys his gasoline as cheap as he can.

Q. With reference to the Gulf Company in Texas, who is the buyer of Gulf refined products?

A. There must be several hundred thousand of them. I hope you are one.

Q. You mean the individual purchasers name the price?

A. He buys. The individual purchaser of oil products is the same

as the individual purchaser of any other commodity. He buys his products where he can get a satisfactory product, the one he likes at the best price, and that price is competitive. One storekeeper can not charge a higher price than a competitive storekeeper near by, or he would sell no goods.

Q. Now, Mr. Nazro, haven't you got the thing switched around? Forehind end to?

A. I think not.

Q. Doesn't the man who drives his car into the filling station pay the price that he must pay in order to get the gasoline put into his tank?

A. But if that price is too high he says I will get it somewhere else. The price is up there on nearly every filling station on a board and if he see fourteen cents in one place, thirteen cents in another a half a block away, fifteen cents in another, and twelve cents in another, if it is good gasoline of the same quality, I think he will probably go to the cheaper place, if he wants to save a little money. If money is no object go to the first place he comes to.

Q. Well, gasoline a year or so ago was selling at about 16 to 18 cents a gallon all over Texas,—I am talking about Gulf gas now,—16 to 18 cents?

A. Yes, sir, that is too cheap.

Q. And now it is 12 and 14 cents?

A. Yes, sir.

Q. How did that price happen to go from 18 cents to 14 cents?

A. Because the other man was selling it at that price.

Q. In the Gulf organization who directs the change in the price, who directs the decrease in the price charged to the consumer?

A. The local sales manager has to sell his product. That is a part of the Gulf Refining Company, but I know this the same as I know that of any commodity, that any manufacturer must sell the output of his plant. Either that, or it goes out of business. He can not continue to manufacture an article unless he sells that article. Now, he sells that article in competition.

Q. Some one has to initiate the movement to raise or reduce the price for gasoline.

A. I think it is the same as any

other commodity. If a man has a large stock on hand and needs money, has to sell, he is going to try to sell a little more. Now, this kindhearted salesman trying to increase his sales, his natural inclination is to cut the price and some of them will yield to it. That makes the other man cut his price or not sell his goods.

Q. All right. I drive my car into the Gulf Filling Station down here and the price is 16 cents, and I say I can get Texas Company gas, just as good across the street—

A. (Interrupting) You can't do that though.

Q. Well, I tell the filling station man that, that I can get just as good gas for fourteen cents and the filling station operator misses a sale, does he then wire into the Company and say I am going to cut the price?

A. No.

Q. Who does he communicate that to?

A. He reports to his District Salesman that "I have been losing customers."

Q. Then, what does the District Salesman do? Does he order a cut to meet the price across the street?

A. Most likely he will if he sees it done in a dozen different places and he sees that he is losing sales, he will say "I must meet competition."

Q. Then the Division Salesmanager make the price policy of the Gulf Refining Company products.

A. That isn't price policy. That is a necessity to meet competition. That is true in every business, Senator.

Q. Suppose, Mr. Nazro, the District Salesmanager in order to meet the situation cuts the price to thirteen cents for Gulf gasoline. Is there anybody above him with authority to protest that action on his part?

A. Yes, sir, he will take that up with the division salesmanager first.

Q. Does the division sales manager, suppose he should say "We will put that bunch out of business, we will make it eight cents."

A. That is very foolish. He doesn't do that.

Q. But if he was to, would he have authority without intervention of the Gulf Refining Company?

A. He might do that once or twice, and then get fired.

Q. Who would fire him?

A. Probably his superior, Mr. Nutty, the vice president of the company.

Q. Is he the next superior over the district manager?

A. Yes, sir, he is the big guy.

Q. What do you say his name is?

A. Nutty.

Q. Now, Mr. Nutty is the man we have been looking for a long time. Does he have the authority to direct a uniform reduction or increase in retail gasoline prices of the Gulf Production Company?

A. I think he would have.

Q. He does?

A. Yes, sir, I think he would have.

Q. Now, suppose Mr. Nazro, this afternoon that Mr. Nutty should decide and determine the Gulf Refining Company could not sell its products at a profit, at current prices, and that it was absolutely necessary to increase those prices to the retail trade at least two cents a gallon on every gallon sold throughout Texas, and he should decide to make that order for the Gulf Refining Company—

A. (Interrupting) He ought to do it if he can sell his product for that additional two cents. He should do it. He shouldn't have waited until this afternoon, he should have done it this morning.

Q. Somebody has to initiate the movement when the Gulf can't sell at a profit,—the Texas can't either, can it at prevailing prices?

A. I don't see how they can.

Q. If Mr. Nutty this afternoon decides that on next Monday gasoline sold through the Gulf agencies in Texas is going to go up two cents a gallon next Monday morning at 7:00 o'clock when the stations open over Texas, and he communicates that fact to the next man under him, and he on down, he passes that information on down the line, step by step to the retailers operating the filling stations on the street corners. How long in your opinion, or if you know, how long does it take for an order such as that to pass from Mr. Nutty through the usual course to the street corner retailers of gasoline?

A. I should think in this day of quick telegrams, telephone service, they ought to be able to do it in about two hours.

Q. Do you think that is customary?

A. Yes, sir.

Q. Do you think that is the way it works?

A. Yes, sir.

Q. They telgraph or telephone the order down from headquarters?

A. That is the way I would do it.

Q. As a matter of practice do you know, whether or not that is done?

A. I think that is the way it is done.

Q. All right. If now, if Mr. Nutty decides on such a course this afternoon and transmits his decisions to his inferiors down the line to become effective next Monday morning, how do you explain the fact that next Monday morning at seven o'clock when the Gulf price is posted, or within thirty minutes after that happens, the Texas Company, the Humble Company and the Magnolia Company posts prices to meet the new price of the Gulf?

A. It seems to me that it is quite simple.

Q. Well, will you explain to the committee how those simultaneous increases or reductions are made throughout the area by the retailers of gasoline?

A. I really don't know, but I can explain how I think it would be done.

Q. All right, if you please.

A. The only reason for a raise is that the product is selling easily and that there is a demand for it at a higher price, that the purchaser will pay a higher price. Now, you can generally find that out by whether your stocks are being drawn on and whether your sales are increasing. Those things have taken some little time before you find out what your decision is going to be. Every sales organization is watching that situation in its territory very closely, and so it is only natural if one sees that situation the other sees it also, and if the situation is reversed it seems to me it is only very natural it would be taken cognizance of just about as quickly. Those changes are not made over night, although the appearance of the change on the board may be made over night but the facts leading up to the change may have been going on for two or three weeks and that is only

the culmination of a number of events which have and are occurring.

Q. Then the policy of the Gulf Refining Company through its distribution agencies is to get all the traffic will bear?

A. To sell its products as best it can.

Q. That means all the traffic will stand?

A. Not always, because you don't want to lose your customers.

Q. The traffic wouldn't stand it?

A. Then the traffic wouldn't stand it, I agree with you.

Q. After all is said and done —

A. (Interrupting) You don't want to take advantage of a local situation.

Q. Now then, if your theory of competitive practice did not prevail, what the traffic would bear with reference to the price of gasoline, would probably be greater than it is under the present conditions, would it not?

A. No. I can't see that. I think it would be just what it is.

Q. Do you think if the Gulf had an absolute monopoly on the retail gasoline business in Texas the price would nevertheless be what it is now?

A. No, sir, we are too human. It would be higher. If we had an absolute monopoly?

Q. Yes.

A. We don't lay claim to any virtue, we are just as human as any other outfit.

Q. Then my other question was; but for the competitive condition that now prevails in the oil industry the traffic would stand a higher price on gasoline than it now stands, wouldn't it?

A. If there was no competition?

Q. Yes.

A. Sure.

Q. Then any tendency to a monopoly of the retail gasoline business in Texas should be anticipated and checked by this Legislature as the representatives of the people, if possible, so as to maintain that competitive condition? Is that true?

A. Yes. I think that the oil industry would be grateful to you if you could decrease the competition a little bit.

Q. The Gulf would like to have an absolute monopoly of the oil business in Texas?

A. No. I will tell you, it really isn't a good thing to have a monopoly.

Q. Why?

A. Because you get dull and lazy, and you do not keep up your products. Your business slacks. Oh, you have a sort of rust dry rot, and then some live wire comes in and takes it all away from you. No sir, it is a bad thing; you have to have some competition.

Q. Well, that would apply with equal force to the purchaser of crude oil in the State, wouldn't it?

A. I think so.

Q. Well, haven't you got competition in the purchasing of crude oil at about its highest right now?

A. Yes, sir, you have competition of course. We have competition in the production of oil.

Q. Who are the real competitors in the purchase of East Texas crude oil at this time? I am not talking about the little ten and fifteen and fifty thousand dollar contracts, I am talking about the real competition in the purchase of the production in East Texas? Who are the real competitors?

A. There are a great many, all of the independent refineries in Texas and Louisiana, Arkansas, some in St. Louis, some as far north as Canada, all along the Atlantic Sea Board. There are a lot of them.

Q. Are they real competitors in determining the price over there, you think?

A. Yes, sir. They are trying to buy the oil as cheap as they can. At least, it would seem so from the prices.

Q. Then this final question, Mr. Nazro. It is your opinion, summing up what you said this morning and stating it briefly and clearly, it is your opinion,—what in your opinion is direct and immediate cause of the collapse of the price of crude oil in East Texas?

A. Too much oil on hand, too much production, too much potential production, the psychology of the salesman not being able to sell his oil for prices that he thought was right, and being forced to take whatever price he can get, the purchaser trying to buy his supply as cheap as he could get it, and the fear of some of the producers in the East Texas field that an order of the Railroad

Commission might be issued on some statewide plan of proration that would curtail their output to such a low point as to make it unprofitable. There are many reasons, but I can give you those.

Q. What has happened to the Louisiana producers?

A. They are just going out of business, they cannot compete, they cannot produce that oil, numbers of them are being shut down.

Q. In drawing any law, or passing any bill, we should take into consideration when this flush production is over that we may have to purchase oil or import foreign oil or oil from other States?

A. Certainly you will, and the more taxes you put on the producer in Texas the harder you make it for him to compete with other places.

Q. And any regulation put upon him, he always pays for with taxes?

A. Certainly. I have not known of a meeting before the Legislature in regard to the oil business which has not resulted in a tax on the oil industry; it has occurred every time.

The Chair: Senator Oneal, I believe you have some questions.

Questions by Senator Oneal.

Q. I understood you to say while ago that your fair share of the oil in a pool was what you could get, that is your theory?

A. I said that a little facetiously.

Q. What do you think is your fair share?

A. The amount of the oil which we can produce without waste from our properties, that is, properties we have leased.

Q. Do you recognize any right in the adjoining property owner so far as the development of your tract is concerned?

A. What right has he in our tract?

Q. I asked you the question.

A. I do not recognize that he has any right in our property.

Q. Or in the method in which you develop your property?

A. So long as we develop and operate our property without waste, that is my business, and not my neighbor's.

Q. And if you can take it out faster than he can because of your more superior financial position and your organization, you are entitled to that?

A. I think so.

Q. That just comes back to the element of human nature you were speaking of awhile ago. I understood you before noon to say there was a difference in the oil business and forming of other industries because the oil business was more a mining business?

A. Yes, sir.

Q. Now do you make any difference between mining oil and gas and mining coal or gold or any other mineral?

A. That is in place and cannot move, yes, there is a difference of the nature of the product, but you make no difference as between the owners of two adjoining coal mines or gold mines and the owners of adjoining oil properties in the same pool. I am not thoroughly familiar with the coal business or gold business, but I understand it is possible to determine by drilling test holes, or pore holes to estimate with a fair degree of accuracy the number of tons of coal under a given tract of land, because that coal is in place.

Q. And you can take by staying within your lines, your vertical lines going down, you can take out all of yours without touching his in the least?

A. I think so.

Q. In the oil or gas business you cannot take out yours, just as if you have a line that was cut down to it, if you take it out faster the oil will flow from the other land, if you beat him to it?

A. It may.

Q. It is your policy to go around your line first.

A. Always.

Q. Why do you do that unless you expect him to draw in?

A. Largely because the other man does it.

Q. You are both after the oil under that land?

A. Yes, sir.

Q. Your position is that you have a right to go after that oil and take it out as fast as you want to, so far as the State is concerned, unless there is what is called physical waste?

A. Yes, sir.

Q. And after you take it out do what you please with it, sell it at any price?

A. Yes, sir.

Q. To give it away?

A. Yes, sir, it is mine.

Q. Or if you had a tank of oil out there you could open up that tank

and turn it loose or do as you see fit?

A. So long as I do not waste it.

Q. Where is the line of demarkation between wasting it by turning it loose or selling it at a low price?

A. One is economic and the other is physical.

Q. You have a right to sell it at ten cents a barrel if you want to when you take it out and there is no economical waste in that?

A. A man won't do that if he can get a higher price.

Q. I understand that, but I want to get right down to the distinction you make between the two, where physical waste begins and where economical waste begins. It is yours after you take it out of the ground to do as you please with it, so long as there is no physical waste. Now where would your physical waste begin, if you took it out and stored it; how would you handle it, explain how you would handle it to make a physical waste after you have taken it out, it is your oil, it is no longer a natural resource in the ground?

A. Well, if I let it go down the creek.

Q. You wouldn't have a right to do that?

A. I don't think so.

Q. You think the State would have a right to prevent you from turning it down the creek or setting your tank afire and burning it?

A. Yes, sir.

Q. On what ground would it have that right, and not direct the way you take it out or limit the amount you take out of the ground, how do you make the distinction?

A. Well, I think the fact, if you turn it into the creek you are polluting the water.

Q. Now take it where you have it in your tank and you burn it.

A. You might set fire to somebody else's property.

Q. Say if you have got it out so there is no danger from that?

A. A man isn't going to do a thing like that, Senator.

Q. I know he isn't, but I want to know whether if a man were crazy enough to do that, the State would have a right, in your opinion, to intervene and stop it as a matter of waste?

A. The State does other things with crazy men.

Q. Suppose he is not crazy but

just got mad and said he would burn it up. You know that the Orange Growers Association in California have destroyed part of the orange crop to keep the price up?

A. I didn't know that.

Q. Well, it has been done. Suppose you have a large amount of storage and you decide to get rid of part of it, it is yours, you have taken it out, and if for any reason that is satisfactory to you, or any of the producers, you decide to burn that much oil, has the State the right to intervene there and say that is physical waste?

A. I don't know, it is such a hypothetical question.

Q. But there is an edging from it; I tried to get you on the price and you would not commit yourself on the price, so we will take an absolute destruction.

A. Yes, I would say the State has a right to do that.

Q. Say that you are going to burn it, it is yours, you have gathered it out there, you're out to yourself, the State has a right to intervene and say you can't burn that oil, it is a physical waste?

A. I don't know whether the State has such a right or not.

Q. Well, now, my decision on that would determine to some extent what I think about the State regulating physical or economical waste in the oil field.

A. Yes.

Q. You are not prepared to say about that?

A. No, sir, I am not prepared to say how the State should treat a crazy man.

Q. Well, I think you are looking down the line like you do in your own business.

A. I don't think that would come up.

Q. You are opposed to any regulation other than the regulation as to physical waste. Now, that is what I am trying to get at, where in your mind the physical waste begins?

A. The physical waste would probably have more to do with the production of gas than with the production of oil.

Q. Has the State any more interests in the gas than it has in the oil?

A. May I finish? Because the waste of gas is wasting a commodity into the air, if it could be used, while the waste of oil—I don't know

just exactly how to express that. The waste of oil would be in the production of oil, not after it has been produced, as to a protection against damages, fire hazard and matters of that kind.

Q. What is the difference of the interest of the State, and we are thinking of the State as the Government, what is the difference in the interest of the State in the gas and oil? That is what I have been observing about your testimony, there seems to be a distinction. What difference is there in the interest of the State in gas and its interest in the oil?

A. It is to safeguard the people here so as to recover for the use of the people of the State as much oil or as much gas ultimately, it is for the ultimate recovery.

Q. The ultimate recovery of as much oil or gas?

A. Both.

Q. Then it has the same interest in the oil as the gas?

A. I think so.

Q. Then if it has a right to force a conservation of gas wouldn't it have the co-ordinate right to force a conservation of oil?

A. But conservation does not mean necessarily to get a higher price for your commodity.

Q. But if it would limit the production of your oil from the field by limiting the amount of gas you can use to lift it—

A. No, Senator, just a moment, by limiting the field amount you may increase the ultimate amount.

Q. Do you speak of oil or gas?

A. Both. What you wish to do is to increase the ultimate amount if you can in an ordinary way.

Q. When this bill that Senator Woodward has—it has that for its purpose, does it not?

A. I expect that Senator Woodward's purpose was to increase the ultimate recovery of oil and gas.

Q. And your opposition to it is that it will tend to fix the price?

A. If he uses areas as a unit, the areas are too large and the various factors in that area are still unknown.

Q. If he uses the word pools, which has a definite meaning—

A. That is still too large; from an individual tract or better still the individual well.

Q. I believe you testified to all

of that a while ago, but I believe that is all.

The Chair: Senator Parrish, I believe you said you had some questions.

Questions by Senator Parrish.

Q. I believe you are with the Gulf people?

A. Yes, sir.

Q. What is the production of the Gulf Company in Texas today approximately?

A. Let me give you the exact figures.

Q. Well, I wouldn't care,—

A. I would rather do it. In the year 1929 it was eighty thousand six hundred and nineteen barrels per day.

Q. What was it in 1930?

A. For the year 1930, seventy-five thousand eight hundred and thirty-five barrels.

Q. What is the production in the United States of your company, approximately?

A. About a hundred and thirty thousand barrels a day.

Q. Something over fifty per cent of it in Texas?

A. Yes, sir.

Q. Now, your company produces considerable oil in governments other than the United States?

A. About sixty-seven hundred barrels a day now in Mexico, which is sold there.

Q. Do you produce in any other countries?

A. The Venezuela Gulf Oil Company in June produced about fifty-four thousand barrels a day.

Q. You import oil to this country, do you, quite a bit?

A. Yes, sir.

Q. About what are your imports?

A. Fifty-four thousand barrels per day during the month of June. That is what we produced, I don't know exactly what the imports were.

Q. And you don't import all of your production from South America, do you?

A. Oh, we could open up wells down there and produce between ninety and a hundred thousand barrels per day from wells already drilled.

Q. How is the cost of production there compared to Texas?

A. I think it is a little less, the wells are easy to make, not very deep and highly productive.

Q. You have pipe lines in Texas, of course?

A. The Gulf Pipe Line Company, yes.

Q. You are not a purchaser of oil?

A. We purchase very little, from royalty owners under the properties of the Gulf Production Company and a few partnerships.

Q. Your company don't hold itself out as a common carrier for the public?

A. We are perfectly willing to carry oil for the public.

Q. You are what you term a common carrier, then?

A. Certainly.

Q. What rate do you charge on that, of course you couldn't answer that as to all points; what profit do you make on your pipe line?

A. About ten per cent on the invested capital.

Q. Is that about true of all of the pipeline companies?

A. I think that would be about the average, some of them may do more, some of them less, but the province of the Gulf Pipe Line Company is to handle the product of the Gulf Production Company and take it for market.

Q. There is one thing I have not been able to understand that was asked awhile ago. You have a posted price today on oil?

A. Yes, sir.

Q. How do you arrive at that price?

A. Our refinery tells us that they will base the Gulf Production Company the average price being paid by competitors for oil delivered to them, therefore we post a price in the field at what we think is the average price being paid by our competitors.

Q. How do you determine what that average price is, from their posted price?

A. From their posted price.

Q. The point I can't understand is how you all accidentally arrive at a certain price to post today?

A. When conditions are a little bit chaotic we send a boy to the office of the other companies to look at their posted price every morning. We send the boy to find out.

Q. They do likewise by you?

A. They don't come to us because we don't post it first, as a rule.

Q. Who are those other companies?

A. The Humble Company, The Texas Company and The Magnolia, and it is in the newspapers.

Q. Then how do they arrive at, — you don't know how they arrive at a price to post?

A. I think so.

Q. How?

A. They bid on the price they can sell the product for.

Q. Isn't it a fact that they sell the product at whatever price they put out?

A. No, at what price they can get.

Q. Well, now I trade with you people quite a bit, the Gulf people. I don't quite get your position in this case, because your price that you have been getting for lubricating oil in my Ford has been about thirty or thirty-five cents ever since I can remember.

A. It is awfully good, Senator, awfully good oil.

Q. You know you can get that?

A. Fine, it is worth it.

Q. It is worth that when oil was two dollars a barrel?

A. I think so, — no, it was worth more than that then.

Q. You sold it too cheap, then?

A. Sure. I am not in the sales division.

Q. In other words, you are not familiar with any end of it except the production?

A. That is my job.

Q. Another question I want to ask you; you need not answer unless you want to, it is purely the curiosity of a country boy. I understand Mr. Mellon is a big stockholder of your company?

A. I expect so. Which Mellon do you mean.

Q. How much does he own?

A. I don't know. I say which Mellon do you mean?

Q. The big one.

A. I haven't any idea.

Q. You are not very familiar with the company, except the production end of it, that is your line?

A. That is my line.

Q. Are there any officials in your company that are really familiar with the entire business from one end to the other?

A. I expect so.

Q. Who?

A. I should say that Mr. W. L. Mellon was very familiar with it.

Q. But to be frank with this Senate you see there is no way to get that information?

A. I will tell you anything I know.

Q. I understand, but you know so little. There is no way to be frank with this Senate and to tell it about the business of your company, there is no way on earth that you can get at the inside workings of the Gulf Oil Company from the beginning to the end, unless you had Mr. Mellon or somebody like that?

A. No, you are wrong. I will tell you everything I know in regard to the Pipe Line Company and the Gulf Production Company, but I am not connected with the Gulf Refining Company which manufactures and sells the oil.

Q. But I understand you to say Mr. Mellon would be the man who would familiar with all of it?

A. Yes, sir.

Q. And the different connections of the company?

A. Yes, but under Mr. Mellon there is a head of each of these subsidiary companies, that is the producing companies, transportation or pipeline companies, and refining companies, and refining companies, and he looks to those men for results.

Q. So, without some man like Mr. Mellon there is no one we could get who could give us all of this information with reference to the companies' workings?

A. I really don't know.

Q. All right; one other question: Under these proration orders of the Railroad Commission, has your company complied with those orders in the past?

A. In every way we could.

Q. You haven't violated them at all, so far as you know?

A. I don't know of an order we have violated.

Q. Now, I want to ask you this question: When you take the oil business from the world-wide standpoint, don't you think that the price is going to some day be forced in this government to compare to some extent with the oil of other nations?

A. Certainly it will.

Q. Well, what would you say would be a fair price for crude oil?

A. Under today's market?

Q. Yes, sir.

A. For light oil, somewhere in

the neighborhood of forty-five or fifty cents a barrel,—about fifty cents.

Q. That would be a fair price?

A. Yes, sir.

Q. Well, why is it East Texas oil hasn't been bringing that?

A. Because the producer is willing to sell for less price and he can not get a better one.

Q. Well, I don't get your position. With one breath when you tell me that you post a price to be fair to everybody, based on what the market will bring, and then in East Texas field, you tell me that although you have posted that price, if you can find some fellow that will—

A. We haven't posted any price in East Texas, Senator. We withdrew our postings over there. The market was too chaotic.

Q. Well, you are purchasing oil over there,—for fifty cents. You were?

A. We had sixty-seven, and when the other people cut to thirty-seven, we cut it to thirty-seven, and then when it got too chaotic, and we didn't know what it would be, and what to pay, and we withdrew the price entirely and said that we would pay to our royalty owners the price that was the average price that we could best determine prevailed during the month of July. That was the average price that the major purchasers were paying.

Q. In other words, the posted price, as you state, doesn't govern you, but if you can buy it for less money, you will certainly buy it?

A. We are not doing it.

Q. You did do it when it got down to thirty-seven cents a barrel, didn't you?

A. No; we—

Q. You dropped your price to thirty-seven?

A. Yes, sir.

Q. That was fifteen or twenty cents below the market—what it should have brought?

A. You can not say what a commodity should bring.

Q. You just a minute ago said what it should bring.

A. I said that would be a fair price the world over.

Q. Based on what you can get for the oil?

A. The world over. You have to take the low grade with the high

grade, and the high market. It will average in the neighborhood of fifty cents.

Q. Now, what do you get out of a barrel of oil when you purchase it, and it is run through and sold to the retailer and your filling stations?

A. I am sure I don't know. I have nothing to do with the selling end of it.

Q. In other words, so far as you are concerned, the only information you have is that in regard to production.

A. And transportation.

Q. And transportation?

A. Yes, sir.

Q. I want to ask you this question. You say that your profit is about ten per cent on the investment—

A. On the invested capital in the pipe line.

Q. In the pipe line?

A. Yes, sir.

Q. How about these government reports that report that all of these pipe lines,—I am not talking about your company, but I remember some of them that made considerably more than that last year?

A. I think I have a list of what the pipe lines made. I have so much stuff here that I don't know where to get it all.

Q. Well, while you find that, what effect, in your judgment, would it have on the price of oil, should Texas production be cut fifty per cent, say tomorrow?

A. Probably increase it.

Q. Uh, huh. Increase it—to what extent do you suppose?

A. Fifty per cent or better. More than that if it was going to stay cut. That is, if production was going to say down—probably more.

Q. Well, based on that theory then,—

A. Probably increase the price if you were to cut the production in Texas, half in two,—the price would probably double.

Q. What effect would it have on the price of oil in Oklahoma and other oil producing states?

A. It would help them too.

Q. Well, then, on that theory, proration might increase the price,—wouldn't it?

A. Sure; it might, and it might not. If you have proration but don't call it by "proration,"—if you have

curtailments. If you tell the cotton farmers and the wheat farmers that he can only plant half as much cotton or half as much wheat, wouldn't the price of cotton or wheat go up?

Q. I think so.

A. If it could stay that way. But, has this Senate or any legislative body the right to fix a price—that it will fix the price of what a commodity would be sold for? They do that over in Russia, Senator.

Q. I understand they do. I believe that's all the questions I want to ask.

Senator Purl: Mr. Chairman.

The Chairman: Senator Purl.

Senator Purl: I have one or two questions.

Questions by Senator Purl.

Q. Mr. Nazro, did you say that you were the second vice president of your company?

A. No; I am a vice president.

Q. You are a vice president.

A. Yes, sir.

Q. Do you want the record to show, as it now stands, that you are a vice president of your company, and do not know who the directors of that company are?

A. I don't mind.

Q. Isn't that what the records show?

A. I think I named all of them.

Q. I understood you to say that you would mail the rest of them in.

A. Of all of the subsidiaries and of the other companies.

Q. Mr. Nazro, is there any sort of an arrangement whereby your company and the Humble Oil Company, when your geologists bring in a map and show where there might possibly be some oil,—that they work together in going into the different fields?

A. No, sir.

Q. Sir?

A. No, sir. No, sir.

Q. Is there any record showing in the East Texas field where when the Humble starts in to pioneering, that the Gulf Company will lease up a part of it, and the Humble Company will lease some?

A. I don't think so.

Q. Nothing of that kind?

A. No, sir.

Q. I see. I believe that's all.

Senator Woodul: Mr. Chairman.

The Chairman: Senator Woodul.

Questions by Senator Woodul.

Q. Isn't it a fact that the major companies are trying to get some acreage for production?

A. Certainly.

Q. Good business requires that?

A. We think so.

Q. Now, another thing that Senator Parrish started to ask you about is this ethereal proposition of the earnings on the capital stock on your pipe line. Isn't it a fact that there is a whole lot of difference in your earnings—when you take your capital stock and your invested capital in a pipe line?

A. Anything.

Q. In any business?

A. In any business.

Q. Yes, sir. In other words, your pipeline company, as I understand it, is capitalized for three and one-half million dollars, isn't it?

A. Yes, sir.

Q. According to the figures, based on the requirements of the Interstate Commerce Commission—and you have to keep all of your records according to rules and regulations prescribed by the Interstate Commerce Commission—that the last report was something over fifty-four million dollars. Isn't that true?

A. Almost sixty million dollars.

Q. Almost sixty million dollars?

A. Yes, sir.

Q. If you get twenty per cent on three and a half million dollars, that would be a long ways from twenty per cent on sixty million dollars investment, wouldn't it?

A. Why, certainly.

Senator Martin: Mr. Chairman.

The Chairman: Senator Martin.

Questions by Senator Martin.

Q. A moment ago you made some reference to Louisiana—in reference to the severance tax in Louisiana. It is not a question then, as to when the tax is put on, or where, but it is the amount of tax over there that is giving the trouble?

A. Yes, sir.

Q. In other words, if this severance tax or gross production tax, or whatever it might be—they just made the tax so heavy that it is hard to bear?

A. They fix a tax based on a number of cents per barrel, and that kind of a tax is always unjust.

Q. How's that?

A. It is always unjust.

Q. Why would it be unjust?

A. If your commodity is selling at a dollar a barrel, and you have ten cents a barrel tax, you are paying a ten per cent tax, aren't you?

Q. Yes, sir.

A. But, if your commodity is selling for fifty cents per barrel, you are paying twenty percent tax.

Q. Yes, sir. Then would you say that our gasoline tax in this State is an unfair or unjust tax?

A. The consumer pays that tax. He pays four cents a gallon, as I understand it, for the purpose of keeping up the roads.

Q. All right. Now then, in paying so much per barrel, say at the well, in posting a price for crude oil, would you take into consideration the fact that a certain amount would be paid for taxes there, and pay it accordingly?

A. We always do. We pay a production tax now.

Q. Well, where is the difference? I don't see any distinction. If you are going to have to pay a certain amount of tax, it seems to me that it would be fair to the State to get a certain amount out of its oil, rather than for the state to have to govern the amount according to the price as it fluctuates up and down according to the market in the hands of those in charge—according to the whims of those that operate it. Don't you think that it would be just the same to take so much per barrel at the wells? than a gross production tax?

A. It might be just as good for the State, but where is the producer going to come out?—on this proposition.

Q. He buys his oil, couldn't he take that into consideration?

A. The man who produces the oil?

Q. Yes, sir.

A. No; he would take that into consideration.

Q. He buys oil on the market—couldn't he take that into consideration?

A. Yes, sir; but that tax would be put on the producer in this state, and it would make a hardship against him in competition with producers in other states.

Q. It is not a question of whether or not it is a fair or an unfair way to tax, but it is a question of whether or not the tax in this state is the same as the tax in some other

state where oil is produced, that brings about unfair competition.

A. I presume that if we had a tax in every oil producing state the same, there would be a reasonable amount of equity to it, but why should the oil business be taxed unduly? It pays a tremendous tax now.

Q. I understand that, Mr. Nazro. But it is getting to be a proposition of whether the tax on the oil—whether you call it severance tax, would be an unfair tax on the oil business. Now, if the tax were placed on the oil at the well, and graduating that—a certain amount for a hundred barrels, and on up and let the tax get a little higher, don't you think that would take care of this proration, rather than some order of the Railroad Commission?

A. No, sir.

Q. Why not?

A. It is simply taxing a man a very high rate during his flush production, when he hopes to get his money back—during the flush period.

Q. Don't you think that it would have a tendency to make him hold production down?

A. No.

Q. Why not?

A. Well, suppose—I suppose if you put enough tax on it—enough to close in his well, it would.

Q. That's what I have in mind.

A. If you would make it prohibitive—if you confiscate his property—his well.

Q. Not the big producer, but the well—put the tax on that well that is producing more—put the tax higher every time.

A. Yes, sir; you could just confiscate his property.

Q. You think then a severance tax—the severance tax they have in Louisiana and haven't got it here in Texas and other oil producing states—that's what makes it bad in Louisiana?

A. No, sir; because they have placed it on for a number of cents per barrel in Louisiana, rather than a percentage of the value of the product.

Q. Do they have a gasoline tax in Louisiana too?

A. Yes, sir.

Q. What is their tax?

A. I think Louisiana has four cents, the same as ours.

Q. The same as Texas?

A. Yes, sir.

Q. That's all.

Senator Pollard: Mr Chairman.

The Chairman: Senator Pollard.

Questions by Senator Pollard.

Q. Mr. Nazro, you are acquainted with conditions of the various oil fields in Texas in regard to the number of cubic feet of gas that escapes to lift a barrel of oil, are you not?

A. Senator, there are so many different wells in every pool, to give an intelligent answer you have to take in each well.

Q. What constitutes waste in escaping of gas in the lifting of oil?

A. Using more gas than is necessary to lift the oil.

Q. I believe a petroleum engineer testified here the other day that in the Big Lake area five thousand cubic feet of gas escaped in the lifting of each barrel of oil. Is that waste?

A. I don't know just how much of that gas is really a part of the oil itself—that is held in solution in the oil.

Q. I believe the testimony showed there is about a gallon and a half per thousand cubic feet.

A. Of gasoline?

Q. Would that be waste?

A. No.

Q. Then it is your idea that you are only taking into consideration the gasoline content of the gas and not the possible use of the gas?

A. Oh, no; you have to take both into consideration. You must take the volume of the gas and what it could be used for as dry gas.

Q. What constitutes a wet gas?

A. The amount of gasoline held in suspension.

Q. Well, how much?

A. Well, any amount is wet to that extent.

Q. All-right, you say that a gallon and a half per thousand cubic feet of gasoline isn't wet gas?

A. It isn't very wet. It's just a little damp.

Q. Just kind of like the Volstead Act?

A. Yes, sir.

Q. Then, would you say three gallons of gasoline would be wet?

A. That is fairly wet gas.

Q. Yes, sir. Then, if any gas

escapes in the lifting of a barrel of oil containing as much as three gallons of gas per thousand cubic feet,—of gasoline I mean, that would constitute waste?

A. No; because there is some gas held in solution in some oils, and as that oil is released from pressure that gas will come out of the oil and carry probably three percent of gasoline, and you have to bear in mind also that it takes a tremendous expense to recover that gasoline, particularly in a new field. It takes time.

Q. In your East Texas field, where they—from two hundred and fifty to three hundred cubic feet of gas escapes in the lifting of each barrel of oil, is that an economic waste, or a physical waste?

A. I don't think I can give an answer of yes or no to that kind of question.

Q. Well, I will be glad for you to —

A. I could —

Q. Well, just tell me.

A. This gas in the East Texas fields. It is held in suspension in that oil, and comes off very readily, and the gas is right in the oil.

Q. About four gallons per thousand cubic feet?

A. I think more than that could be recovered if the equipment was ready to do so, but two or three hundred cubic feet per barrel of oil is a rather low ratio. It is doing its work.

Q. Have you said it was waste—what is waste?

A. No, I wouldn't consider that waste.

Q. Are you operating in the East Texas field now?

A. Yes, sir.

Q. You are producing oil from wells over there?

A. Yes, sir.

Q. How much are you taking from each well on the average?

A. Two hundred some odd barrels; we are following the Railroad Commission's orders.

Q. You don't have any casing-head plants over there?

A. Oh, no, not yet.

Q. In your opinion, would it be practicable to operate them in this field at this time?

A. I hardly think so, not at this time; it may be in the future.

Q. In regard to escape of that gas over there, is that condition there—the escape of gas in the lifting of oil as great as in other fields in Texas?

A. You mean the gas-oil ratio?

Q. Yes.

A. It is less than in some.

Q. It is less than in any other field in Texas, isn't it?

A. It is very low.

Q. Then, if it is waste in that field, it would follow there is more waste in other oil fields in Texas?

A. Not altogether.

Q. As a general rule, would it follow?

A. No, in some fields it will take more gas to raise a barrel of oil than in another field.

Q. I know, but there will be more escaping in the lifting of the oil. Here is what I want to find out: Why is it, with the smallest oil-gas ratio of practically any field in Texas, that geologists testified before the Railroad Commission and a Senate committee that that is the only field in Texas where there is any great waste at this time; can you answer that?

A. In most of the other fields provisions have been made to utilize the casinghead gas. This East Texas field is still in a very new condition; it is still being drilled, and it will take some time and a lot of money to put in equipment.

Q. Are they putting in new casing-head plants in other fields?

A. I don't think there is a new one anywhere and many of them are shutting down, because they are making no money.

Q. Do you think there has been any sin committed against the industry by oil being discovered in East Texas?

A. Why, no, it was going to be discovered, anyway. Sin against who, Senator?

Q. We people in East Texas have gotten to feel from the criticism—every time you see anything in the paper it is about East Texas ruining the oil industry—we never saw any oil before and at home we are rather proud of it, but outside we are rather cowed. Isn't it true, Mr. Nazro, that the general economic condition of the world has something to do with the condition with the price of crude oil, as well as with every other kind of goods at the present time?

A. Yes, and every other commodity.

Q. Is it any more necessary to legislate in behalf of the oil industry than for the farmer, in your opinion?

A. Not a bit.

Q. You don't own any of the producing areas in the Van oil pool at this time, do you—that is the unitized area?

A. Not in the unitized area.

Q. Do you favor an embargo on the importation of oil?

A. No.

Q. Do you favor a tariff on oil?

A. No.

Q. If the bill advocated by Senator Woodward was passed, would that mean an immediate increase in the price of crude oil?

A. I don't think so.

Q. Do you buy oil in California?

A. No, sir, we have a little producing property out there we made a mistake on.

Q. According to the information we have, in California prior to the convening of the introduction of our recent oil and conservation statutes, as they call them, the price of oil and gas gasoline was very low; is that true?

A. I understood it was.

Q. But immediately after the enactment of these laws the price of oil was increased about 40 cents a barrel; is that true?

A. I understood so.

Q. And the price of gasoline to the consumer increased 5 1-2 cents a gallon?

A. I think so.

Q. Is that because of the law of supply and demand over there being suddenly changed?

A. I don't understand that situation; I don't understand just how that did occur.

Q. I would like to know.

A. So would I.

Q. You fellows ought to be able to tell us.

A. I would like to know, too.

Senator Pollard: That is all.

Questions by Senator Neal.

Q. I see in the headlines of the paper this afternoon that you are quoted as flaying regulation or being opposed to proration. May I ask if your company has complied with the letter and spirit of the proration laws up to now in the proration order?

A. We have complied with the

rules and regulations of the Railroad Commission. We have filed objections; that is, we objected in the hearing before the Railroad Commission to this so-called statewide proration, yet we have gone along.

Q. In objecting to proration do you find that these proration orders have been disadvantageous to your company—to your business?

A. I think this statewide proration has.

Q. Well, if it has been disadvantageous to your business do you consider it has been disadvantageous to the State?

A. I think that the statewide proration order has been.

Q. And has it been disadvantageous to the little fellow?

A. I think so.

Q. Who, or what agencies are responsible for proration in Texas?

A. Do you mean the statewide proration so called?

Q. Yes. Who is it that favors proration and hopes to finish it by proration regulation?

A. Great many people.

Q. A great many people?

A. Great many people.

Q. Who are these great many people?

A. The Central Proration Committee has been the what might be called the leader of that movement for statewide proration.

Q. Is this Central Proration Committee composed largely of representatives of major companies or representatives of minor companies?

A. I am sure I don't know all of the members of the Central Proration Committee.

Q. Do you not feel that proration discourages wildcatting and the opening up of new fields?

A. No; I think it encourages it.

Q. You do.

A. Yes.

Q. In what way?

A. It holds out a hope to the wildcatter that he will be able to bring in some new field and have that field under proration to the advantage of his new field.

Q. Do you not feel that proration discourages or causes the royalty owner to have very little hope in ultimate recovery of profit?

A. Senator, I want to get the difference in your mind between proration, or a plan for conservation and orderly development in one specific

pool, as different from this so-called statewide proration.

Q. Well, drawing a distinction—

A. There is a very marked distinction.

Q. Drawing a distinction between some specific pool and a statewide plan, you think there would be encouragement, then, to the wildcatter to prorate a specific field?

A. I don't think it makes a bit of difference.

Q. You don't?

A. Because that plan that you might call proration is a plan for the conservation of the oil and gas in that field, for the prevention of waste, and for the orderly development and operation of that particular pool.

Q. May I ask then, if you think any advantages have accrued to the State and the producers—I beg your pardon—to the royalty owners, say in the East Texas pool, or will accrue to them through this bill that we have before us now—the Woodward bill. It seems the royalty owners have received but little consideration in this bill.

A. I think that any plan for statewide proration will be detrimental, not only to the royalty owners, but also to the operators in all of the pools in Texas.

Q. Senator Pollard asked you some questions about the waste of gas in East Texas, and perhaps my question will be a repetition of those questions; but I want to ask, are you a petroleum engineer? I presume you are a practical one, at least.

A. I don't know whether I am or not; I know a little bit about it.

Q. What is free gas?

A. What is what?

Q. What is free gas? What is free gas in a field?

A. I would say that was the gas not held in solution in the oil.

Q. Mr. Foran, whom you no doubt know—

A. No, I haven't met him.

Q. He was before this body for a day and a half. Mr. Foran said at Kilgore a few evenings before I came down here that there was very little free gas in the East Texas field. Have you been in the East Texas field, may I ask?

A. Yes, ma'am.

Q. Do you consider a great deal of gas is being wasted in that field?

A. I think quite a lot of it is being wasted.

Q. You do?

A. Yes.

Q. Do you think it is recoverable?

A. The gas which is now being wasted?

Q. Yes.

A. The gas which is being wasted today is not recoverable.

Q. Why isn't it recoverable?

A. Because it is being burned or going off into the air.

Q. Would it be practicable to the operators to conserve this gas?

A. I think so.

Q. In what way might it be conserved?

A. By producing the wells to a less capacity.

Q. Do you think that would reduce the waste?

A. I think you would utilize that gas over a longer period of time, so that you would produce—so the producers would produce more barrels of oil. It would be a great economic saving as well.

Q. Do you not think that by that process you would restrict the flow of the oil wells to the extent that it would not be profitable to the operators probably to operate it?

A. Oh, no, no.

Q. You don't?

A. No. You could still operate those wells and reduce the flow of gas very materially.

Q. I make this statement and see whether or not you agree with me—or rather with him. I asked Mr. Foran at this meeting a few days before I came down here if this gas that is so-called wasted now in the field, and which is being burned in great quantities all over the field, if that could not be piped back down into the ground to be utilized or whether or not it would be possible to establish a gasoline plant in this field. He said it would not be possible.

A. Would not be profitable?

Q. Would not be profitable, that the machinery necessary for pumping this gas back into the ground was too expensive to make it profitable in this field unless there was more cooperation on the part of the operators to do that.

A. I think it would be unprofitable at the present time.

Q. I just wanted to bring that out as a refutation of the charges that have been brought here so many times that gas is being unduly wasted in the East Texas field. How long do you think that a well should enjoy flush production before the production should be curtailed under some conservation order or rule?

A. As long as possible.

Q. As long as possible?

A. As long as possible for the well to flow without waste.

Q. I think I understood from the witness from Amarillo yesterday,—I have forgotten his name,—that a well should not be prorated or restricted under two years. I may have misunderstood him in that statement. Do you agree that in order for a man to receive some return on his investment, that his well should enjoy the flush production for as long as two years, if it can be operated without undue waste?

A. Why, Senator, if he can enjoy a large production from the well for the rest of his life, without waste, I think he ought to be allowed to do so.

Q. You are not a strict conservationist.

A. Yes, I am. I said without waste.

Q. Without waste. Well, there is one other question, Mr. Nazro, that I would like to ask you. I understand there has been a bill introduced which will prohibit the pollution of streams by the drilling of wells in the streams or near by streams. Do you think it is possible to operate a well, that is, drill within the bed of a creek without absolutely polluting the water of that stream?

A. I expect it would be possible, but somewhat difficult, a little pollution, but a little pollution wouldn't hurt anyone.

Q. Would a well drilled within the bed of a stream be more likely to pollute that stream than a well drilled on the margin of a stream?

A. Not if proper precautions were taken.

Q. That is all.

Senator Woodward: Governor Sterling wants to come before the committee this afternoon, and it is 4:20 now and if we are through with

this witness I move that we stand at ease for ten minutes so the Governor can make his arrangements to come up.

(Motion duly seconded and carried, and the committee stood at ease until 4:30 p. m. at which time the following proceedings were had; to-wit:)

Governor Sterling was then presented to the Senate committee, and upon questioning by Senator Woodward testified as follows:

Q. Governor Sterling, a few days ago over in the House, Mr. Farish testified, and during the course of his testimony he was asked to relate to the House and to the Committee the facts in reference to some transaction you had with the Humble Company in 1930 in respect to some royalties, and it was referred to as a loan. I wish you would explain to this committee the facts and details of that transaction as they occurred, and state what it is.

A. On the 3rd day of January, 1930, the Humble Company brought in a well on a fifteen hundred acre tract of mine and some friends of mine,—I owned three-fourths of the land and the other parties owned one fourth of it. This appeared to be a very good well and several days after the bringing in of this well a representative of the Humble Company came to see me and wanted me to allow them to defer drilling for a year. I told them I didn't want to wait so long to get some revenue from this property, that I had waited about four years,—that had been at least three or four years,—and they said "We are willing to pay you for this consideration." There was one hundred and seventy-five thousand dollars that had to be paid on account of the bonus on the lease, that is, when oil was brought in, and so they agreed to pay two hundred and twenty-five thousand dollars advance royalty. In other words, they figured there would be about that amount during the year that would come in on this well—

Q. (Interrupting) That would be yours?

A. Yes, sir, that would be mine. So they agreed to pay me the two hundred and twenty-five thousand dollars, or us, rather, and the one hundred and seventy-five thousand dollars on the bonus on the lease, which was sold to them several years

before. So I accepted the proposition and the well was closed in for a year, but it was no loan because I never have to pay it back.

Q. Now, Governor, did you execute an obligation of any kind, or make any promise or agreement to pay that back?

A. I certainly did not. On the contrary it was not to be paid back because it was royalties and if they didn't produce the oil and get that amount of royalties it was their hard luck and they didn't get it.

Q. Now, if I understand that, summing it up, you sold a lease,—you and your business associates sold a lease to the Humble Company?

A. Yes, I think that lease was sold in 1926.

Q. In 1926.

A. I am not sure about the date, but I believe in 1926. And by the way, it was sold with competitive bidding.—I see Nazro laughing over there—with the Gulf and Humble, they were competitors and we left it up to sealed bids and the Humble won by ten thousand dollars.

Q. The Humble paid you ten thousand dollars more than the Gulf agreed to pay?

A. Yes, sir.

Q. It was a competitive proposition?

A. Yes, sir.

Q. Now, when that lease had run some four years—

A. I am not sure about the date, but I think it was in 1926, Senator.

Q. The time,—whatever it was.

A. Yes, sir.

Q. They did not want to develop the property?

A. No.

Q. That is, to further develop it.

A. In other words, it was what was termed a five year commercial lease and part of the time was up and I had jacked them up a bit about doing some drilling and they decided to do some work. The time wasn't up, however, because they had five years in which to drill by paying the rental each year, so they started drilling I think in the latter part of 1928, or maybe 1929. I guess 1929.

Q. And brought in the well on the 3rd day of January.

A. Yes, 1930.

Q. When they brought that well in, of course they then knew it was

productive property,—it was proven territory?

A. Yes, sir, we all knew it was.

Q. And they didn't want to further develop the property, which you had a right to demand they should do?

A. Well, my lease called for reasonable development.

Q. So in consideration of you agreeing to permit them postpone,—you and your associates—further development for one year, they paid you the estimated amount of royalties which would come to you if they went ahead and developed the property?

A. That was the royalty as near as they could arrive at it.

Q. Did you execute any note or any obligation, either verbally or in writing agreeing to repay that money, or do you now owe them one five cent piece?

A. I don't owe them a nickel.

Q. Are you under obligations, financial or otherwise, to the Humble Company?

A. I am absolutely not. I don't owe them a penny in the world and they don't owe me anything.

Q. Now, Governor, on yesterday before the Senate, some inquiry was made of Mr. Harry Pennington, who was a witness, as to certain rumors he had heard in respect to a hearing before—in respect to you having floated a bond loan of some kind on the Post Dispatch property. He stated in substance that he had been informed and it was rumored that you had executed some bonds, and secured the bonds by a mortgage on the Post-Dispatch property, aggregating, so he understood, six hundred thousand dollars, and that those bonds had been sold to other purchasers by several banks, including, I believe he said, the South Texas Commercial National Bank of Houston, in which bank he said the directors, or some of them, were also directors of or connected with the Humble Company, and that he understood from these rumors that there had been some kind of written guaranty in respect to the loan, or to the payment of the bonds when they matured,—

A. (Interrupting) Written guaranty by who?

Q. I don't think he said who, but insinuating it was the Humble Company. I think that was the in-

ference intended, Governor. I will ask you to state whether or not any such transaction occurred, and if any part of it is true, just state what part it is.

A. I am not an officer or director of that corporation. However, I am a stockholder. The corporation sold bonds to two banks in Dallas and one bank in Houston. The Public National Bank & Trust Company in Houston, and the Mercantile Bank in Dallas and the Republic Bank, in Dallas, and those bonds were sold all over the country. They were advertised. I don't know who has got them. I couldn't tell you who has them, but those are the people that the negotiations were with. I understand that several of the banks in Houston have bought some of the bonds as an investment.

Q. And those bonds were placed on the market as other bonds would be?

A. Yes, sir, and they were sold, some here in Austin. I saw a man who told me he had bought some here in Austin. They were put out as a regular issue and sold all over the State.

Q. Now, do you know anything about any guaranty, or written guaranty, by anybody with respect to them?

A. The only guaranty was the guaranty from me that the bonds would be paid at maturity. It carried my personal guaranty in the deed of trust.

Q. They were secured by your guaranty and by a deed of trust on the property?

A. Yes, sir.

Q. And these bonds are in the nature of, not ordinary bonds, but as we understand bonds?

A. Regular mortgage bonds.

Q. Regular mortgage bonds?

A. Yes, sir.

Q. In series that are for sale to the public, and secured by your guaranty, and by a lien on the property?

A. That is right. As far as the Humble Company is concerned, I didn't know whether they knew anything about it, and didn't care anything about it.

Q. These bonds were sold to the various banks?

A. Well, the banks bought the issue and they sold them promis-

cuously. I don't know where they are, and I don't reckon they know now.

Q. Numbers of people own those bonds?

A. Yes.

Q. Governor, is there any other statement you care to make in respect to either one of these transactions now?

A. Well, I might say this; I rather regret that you folks have gone to dealing in rumors, because if you are going to deal in that I am afraid we are going to be here all summer.

Q. Well, that found its way into the record, and some of us wanted to clear it up.

A. Well, I am glad to have an opportunity to clear it up, because these oil fellows are pretty good fellows, but when you come to getting money from them, I imagine it is a hard deal to get it.

Senator Woodward: That is all.

Questions by Senator Holbrook.

Q. Governor, this transaction of January, 1930, that you speak of in which you received two hundred and twenty-five thousand dollars, making a total of four hundred thousand in all that you had received on that tract of land for royalties and leases, is that all the money you have received on that land?

A. Well, there was a consideration when the lease was first made of one hundred and seventy-five thousand.

Q. And then two hundred and twenty-five thousand?

A. Two hundred and twenty-five thousand advance royalty and the lease paid one hundred seventy-five thousand, to be paid when it became productive.

Q. Which has not been paid yet?

A. Which has been paid. They paid one hundred and seventy-five thousand and two hundred twenty-five thousand to me and my associates, which made four hundred twenty-five thousand.

Q. Have you received any money since January 3rd, 1930?

A. No, sir, not a cent.

Questions by Senator Pollard.

Q. I understand, Governor, you got one hundred seventy-five thou-

sand bonus at the time the lease was executed.

A. Yes, sir.

Q. In 1926?

A. Well, I would not be sure about the date, but I think that was it.

Senator Purl: Louder, Tom.

Q. I said 1926—one hundred seventy-five bonus for the lease at the time it was executed—I mean one hundred seventy-five thousand—and two hundred twenty-five thousand on January 3rd.

A. No, that was a few days after January 3rd. I think the well came in on January second or third, but it was around the third of January.

Q. I understood they would not pay you any royalty until the one-eighth would equal that.

A. Well, I didn't let them have it that cheap. It was one-sixth. But there is no obligation if they do not produce the oil, Senator.

Q. I understand.

A. I will never pay it back and there is no obligation to pay it back.

Q. I understand. But you don't get any more out of your royalty until one-sixth of production will equal two hundred twenty-five thousand?

A. Yes, and I may never get any unless they produce.

Q. Are they producing any?

A. Yes. They drilled one well and made a failure and are starting another one now.

Q. May I ask some questions about other matters?

A. Well, if it is the same questions you asked me before, no; but if it is different ones I don't mind answering.

Q. Well, if it is the same question you will probably remember.

A. Yes; all right.

Q. Governor, I would like to get your idea on the present need of legislation. Is it your idea that we should enact legislation here that would enable the Railroad Commission or the body that you propose to prorate production over the State—is that the purpose of this Commission?

A. My message to the Legislature was very clear on that, Senator, and I refer you to that.

Q. Well, do you think we ought to

pass a law enacting proration at this time?

A. I have never mentioned the word "proration" in any message or in any statement in discussing this question. It has been a question of conservation, Senator.

Q. Yes, sir, but it is so closely allied with advocates of this conservation bill that I would like to get your idea; if you object to giving it, I will not ask you to do it.

A. Well, I think I have been very plain in my statements and what is before you folks today is very plainly stated in the message, and that was conservation.

Q. Yes, sir.

A. Now, if proration is conservation, why—which I don't think it is.

Q. I don't either.

A. Why, that is the only way you can connect up proration with me, so far as I am concerned.

Senator Pollard: Much obliged.

The Chairman: Any further questions?

Senator Woodruff: I want to ask a question.

The Chairman: Senator Woodruff.

Questions by Senator Woodruff.

Q. Governor, what was the production of that original well on the lease that you let the Humble Company have?

A. Well, it was—the well was never allowed to flow but for a short time. It carried about fifteen hundred pounds pressure and when it first came in made something like fifteen hundred barrels a day.

Q. A fifteen hundred barrel well?

A. I don't know whether it would be called a fifteen hundred barrel well or a two thousand barrel well or not, but I guess if some fellows had it they would call it a twenty thousand barrel well, but it was a pretty good well.

Q. Governor, have you read the Woodward bill that is pending here and under consideration?

A. Yes, I have read the Woodward bill.

Q. Is it fairly satisfactory to the Governor's idea of what it should contain?

A. Why, yes, I think that it is a very good bill, Senator—about the best I have seen that has been handed me; I think more of it than I do of the rest of them.

Q. Suppose, Governor, that a clause should be written into that bill which specifically forbade the commission taking into consideration market demand in arriving at the allowable production—

A. Well, I will answer that, Senator, by saying that in the bill that was submitted to me and my criticism was asked, why, I marked out that clause that carried market demand.

Q. Yes, sir. But in order to make it absolutely certain that this Legislature does not want the commission to consider any connection with conservation the market demand there would be no objection, would there, to writing into the bill the express inhibition in some such language as this—(question interrupted.)

A. Well, now, you would have to write the bill before I would go to work and tell you what I think about it.

Q. Well, you have seen the Woodward bill and I am thinking of that, but I am thinking of one additional clause, section, or paragraph that would read about as follows: "However, the Commission is hereby expressly prohibited from taking into consideration market demand as an element of waste as defined herein."

A. Well, I don't know whether you could connect the market demand and waste or not, Senator, because there might be a very poor market and still you might not be wasting any of the oil.

Q. That is what I am getting at, Governor. In other words, if I get the Governor's idea, and I may say that it is my idea of conservation, and it is only to be clear on it; it is best to conserve the oil and gas in the State by producing it to its greatest capacity commensurate of physical waste. You would not advocate to the Committee and the Legislature that a bill that would in any way reduce the amount of oil and gas produced providing it was being produced economically?

A. No, Senator, I might say if proper conservation measures are followed in the production of oil that is to conserve the gas which flows the oil, you likely would not have much trouble about proration. You would have a very good market I think, but as I said before, I marked out in the bill that was handed me the very

clause in there that related to market demand.

Q. Governor, it has been testified here before this committee that adequate conservation, by that I mean conservation that would permit greatest possible production with the least possible amount of waste could be brought about and the volume produced in Texas not substantially reduced.

A. Well, I don't know about that, I think it would be reduced, Senator.

Q. Well, if it was possible to so regulate the production of these wells, both oil and gas, as to permit the greatest ultimate recovery and at the same time not reduce the volume being produced, would that accomplish the Governor's idea and purpose?

A. I don't think it would be possible to use proper conservation measures and recover the ultimate quantity or greater quantity, and produce as much as they are producing now, I think it would lessen the production.

Q. Of course, Governor, I understand, I don't know.

A. Well, I am telling you what I think about it, Senator.

Q. But my question was based upon the assumption that that could be done, would that meet your approval?

A. I am not assuming it can be done, I believe it can be done. I don't think it is possible to use the proper conservation measures in the production of oil, even in the East Texas field or any other field that is a flush field, and produce as much as they are producing now, when it is let go harum scarum.

Q. There are one hundred and twenty thousand acres approximately in the producing proven area in the East Texas field. Do you understand that there are a sufficient number of wells on every portion of that area to efficiently develop the field under the conservation laws?

A. You mean now?

Q. Yes.

A. Why, I don't think so, I think there are many thousands of acres without a well today.

Q. Then it would be best in accordance with a law demanding proper conservation over there in drilling operations and yet you could increase the number of wells drilled and operated in response to such a State regulation if conservation increases your number of wells, there-

by increasing the total output of the area?

A. Well, I think of course if you drill the whole thing at one time, Senator, you would likely have more production, you would increase your production if you drilled over the entire area, there is no question about that, but if you do that that would not be conservation.

Q. Well, that would not be the Governor's idea of conservation, if a sufficient number of wells were drilled in there within the next thirty days to cover that area with the greatest number of wells necessary to the ultimate greatest recovery in the field, and all of those wells were operated with reference to the pressure of gas and in infringement of water to the limit that is hazardous, in so far as is possible, and still increase the total volume being produced over there, that would not be conservation?

A. No, if you go to work and cut all of your timber down at one time and let it be destroyed that would not be conservation.

Q. Now, in order to be absolutely certain we understand each other on that point, let me state that question another way.

A. What are you trying to arrive at, maybe I can help you?

Q. I will show you when I ask this question, if the Governor will let me ask the question for the record. If it is known today how that field must be produced so as to get the highest volume of oil and gas out of the ground over there regardless of the length of time required to do it, that is conservation, is it?

A. Will you state that question again?

Q. Disregarding the time element entirely, taking into consideration the ultimate maximum recovery of oil and gas from the ground is the real conservation, isn't it?

A. Yes, with reasonable development, Senator.

Q. Now, Governor, why do you say reasonable development?

A. Well, because you have got about twice as much cotton land in Texas as is planted to cotton, are you going to go out and plant it all?

Q. Then the reason you make the objection to going that far is the contemplation of price to be received for it, is that true?

A. Well, I stated here the other day that if oil was selling at a dollar

a barrel you fellows would not be here talking about it.

Q. I just wanted to be clear with the Governor on that matter because there has been some misconstruction of the Governor's statement to the committee the other day and there has been some testimony to the effect that it is possible to get conservation of natural resources, that is to get the greatest possible amount of the natural resources for the human consumption, and I thought would not reduce the volume.

A. That is a question of opinion.

Q. After all is said and done, Governor, it is the Governor's idea of a proper conservation program in this Legislature that that program ought to result ultimately in an enhancement of the market price of crude oil?

A. I have maintained that with the proper conservation measures perhaps you would lessen the production and that of course would likely increase the price.

The Chair: Senator Purl.

Questions by Senator Purl.

Q. I understood you to say in substance that the oil field situation was worse off than agriculture?

A. I think so.

Q. I understand that it has been said that the value of the cotton crop last year was about equal to the value of oil produced last year?

A. Last year?

Q. Yes, 1930.

A. What would it be this year?

Q. I don't know; I have never been able to understand, and I am sincerely asking this question, I have never been able to reconcile the question as to whether the oil people are really worse off than the cotton people.

A. I will give you this illustration. We will say that fifteen cents is a fair price for cotton, you agree with me there?

Q. Yes.

A. Now then, cotton is selling for eight cents a pound at the present time. We will say that a dollar is a fair price for oil, will you agree to that?

Q. Yes.

A. Now, it is selling as low as two and a half cents, can you get the comparison?

Q. Yes.

A. Then it is worse off because the cotton is selling for about two-thirds of a fair price and the oil is selling for about five or ten per cent of the fair price. I am just explaining that it must be worse off by the relative position.

Q. If there should be about a hundred thousand people engaged in the production of oil, and interested in it, and about a million people interested in the production of cotton, then the figures are far off, from the standpoint of the number of people?

A. No, it don't change them at all, Senator. You were speaking of the different commodities, and what the condition of the industry was. If one commodity sells for ten per cent of the fair price and the other sells for seventy-five per cent of the fair price, I would rather take the seventy-five per cent end of it.

Q. Do you think a farmer is worse off than the average oil man?

A. They all tell me they are in an H— of a fix, I don't know which one is worse off.

Questions by Senator Pollard.

Q. If I understand you ideas on the conservation statute to be passed, it would work to prevent the drilling of more wells at this time as much as possible?

A. Well, of course, it is owing to what methods the commission would prefer along that line, what their thought would be as to that.

Q. The thing we are interested in in East Texas is this question, the proposition is we have a hundred and twenty thousand acres of land in the oil territory, that will produce oil, as agreed to by all geologists and oil companies, we have now between twelve and thirteen hundred wells. Now for instance the Big Lake area, I think is approximately thirty-five hundred acres, they have a hundred and fifty wells. Would it be the idea of conservation to discourage and prevent by discouragement the drilling of any more wells in either of those fields?

A. Well, I don't think that they should discriminate against any field, Senator.

Q. Well, would it be the idea of a conservation commission, in carrying out the conservation statute pro-

posed in the Woodward Bill to permit a new field to develop to the extent that an old field is before curtailing drilling of new wells?

A. Well, I think that would bring about the situation you have now. If you take a new field and turn it wide open I think you would have what you have in East Texas, Oklahoma City and other places.

Q. Possibly I did not make myself clear. Would it be the idea to enact a statute that would work it this way, that the people in East Texas who have now only one well to about every ninety or a hundred acres, that their potential production would be based upon the wells now being drilled or would it be based upon the potential production of the entire one hundred and twenty thousand acres, which at this time I believe is considered about fifty thousand barrels per acre potential recovery?

A. Well, I think each one would have to stand on its own bottom. It would be a question of the rules and regulations and something that was fair to each district. I do not figure it from any particular area or particular pool, it is a question of the industry as a whole. As to the details, it is impossible to go to work and go into all of those things and tell how this thing and that thing would work.

Q. We are very materially interested over there in knowing how it would work. I don't want to be tedious or worry the Governor or this Committee.

A. Yes, you have been trying several methods.

Q. Yes, we have been trying them everywhere, in raising potatoes, cotton, corn, goobers and oil, but it seems that when we got in shape to live pretty well over there the bottom fell out of the oil tanks and we all got in bad shape and we are just left sitting there without anything.

A. I think that is the condition in most of all of the sections.

Q. I think so, but I want to know whether it will work out over there.

A. My idea is that no place should be discriminated against, they should all be treated fairly and equitably, every section of the State.

Q. That is my idea exactly.

A. Yes, sir, that is right.

The Chair: Senator Martin.

Questions by Senator Martin:

Q. I missed part of your testimony at first. I am sorry I was out.

A. It is in the record. You can have it read if you wish.

Q. No, I think I can get along all right. If I understood the papers of Sunday stated that the President of the Humble Company stated that his company had made a loan to you of some certain amount, I can't remember now the exact figures. I wouldn't undertake to say. Now, if I catch your testimony, if I understood it when I came in, was some one had advanced royalty to you, is my understanding.

A. No, sir, Senator, I think you are in error. Even if they did state it, it never happened. They never loaned me any amount in any shape or fashion.

Q. The House Journal of Saturday has not reached us yet. I only have the newspaper report.

A. I don't know what the newspaper carried, I am telling you the facts.

Q. The facts were, as I understand, there was an advance to you of royalty, is that right?

A. There is an advance royalty on this particular lease based on the calculations as to what it would produce during the year, and the lease was shut down, or the well was shut up and closed for a solid year.

Q. The Humble Oil Company drilled that well?

A. Yes, sir.

Q. They did not want to go on and develop the field over there at that time, is that right?

A. No, they did not want to go on.

Q. All right. When they refused to develop the field over there you as a royalty holder demanded that they pay you an estimated amount for your royalty?

A. Yes, sir, in fact they asked if they couldn't close it for a year, asked would I be willing to take,—asked what I would be willing to take and we arrived at these figures, that I would take in advance royalty for the purpose of the field being closed for a year.

Q. Now, Governor, you didn't

then execute a note to them for that, of any kind?

A. No; if they produced the oil, of course, they get that royalty.

Q. If they don't produce the oil, they will not recover that amount of money?

A. Not one nickle of it from me, no.

Q. Was there or not a contract in writing entered into at that time?

A. Yes, sir.

Q. Have you a copy of that?

A. No, sir; I have not, but it is a matter of record.

Senator Woodward: There was a copy of that contract introduced in the House.

Senator Martin: I thank you; I didn't know that.

Q. Governor, at the time this well was discovered down there, proration at that time was in order, wasn't it?

A. They were practicing proration in West Texas, I think, or in Central Texas.

Q. Then, Governor, how can you reconcile the fact that proration at that time was being ordered by the Railroad Commission, and you were demanding they pay you your royalties? You were not willing to abide by the orders of the Railroad Commission then, were you?

A. Proration didn't come into it. It was a question of not drilling any other wells, and closing that one for the time, and the advance royalties were paid—the amount was paid as if the wells were allowed to produce.

Q. I want to get that clear. I want to get that thoroughly clear in my own mind, and in the minds of those who might hereafter ask me about it. When the oil well was discovered, the Humble people did not want to go further in developing the field?

A. They certainly did not, or they would not have paid \$225,000 for the purpose of closing that one.

Q. And they paid that \$225,000 as an advance on the royalty?

A. Yes, sir.

Q. Have they paid more at any other time since?

A. No, sir.

Q. Just that one time.

A. The year is up—was up in

January, and they have drilled one well, and have started on another.

Q. After they started on the other one, has there been any further advances on royalty?

A. No, sir.

Q. I didn't understand the \$175,000 proposition.

A. I can explain that to you, if you were not here.

Q. All right.

A. I think it was in 1926, it was reasonably definite that this land that I owned with two other gentlemen had what they call a salt dome, and there were two different companies trying to acquire the lease, the Gulf and the Humble. I told them, "All right," that I would leave it up to competitive bidding, the fellow who had the longest pole would get the persimmon. The Gulf Company bid \$165,000 in cash to be paid immediately, and \$165,000 in oil out of the first oil produced; the Humble Company bid \$175,000 in cash, and \$175,000 to come out of the oil produced. Now, then, this lease when made up was what was termed a "Five-year commercial lease" with a rental of four or five dollars an acre per year on this land. In 1929—the early early part, I think—they began drilling on this property. They drilled several wells until they found the right place, and as this well was brought in, I think, on the 3rd day of January, 1930, and they did not want to go on developing the property, so they came to make a trade with me as to what it would take to close up the property for a year; they wanted a year's time on it; and we arrived at what we figured would be a fair royalty. They would pay the \$175,000, which was a debt on the original bonus, and \$225,000, which was the estimated amount that would come from it in royalties. Now, if they don't produce that amount of oil that the royalty amounts to, then they will not get their money. No obligation whatever on my part.

Q. You sold them \$225,000 worth of royalty, and did not make a loan?

A. I just sold them that much oil, if they could get it.

Q. If they didn't get it, it would be their loss?

A. Yes, sir.

Q. That contract was in writing and was introduced in the House?

A. I understand it was. There are two other gentlemen interested in it with me; I own three-fourth, and they own one-fourth. That is the whole transaction.

The Chairman: Any further questions?

Senator Woodward: One further question.

Q. (By Senator Woodward.) What properties secured these bonds?

A. The assets of the Houston Printing Company.

Q. That company publishes the Houston Post-Dispatch?

A. Yes, sir.

Q. (By Senator Pollard.) This royalty advance payment is nothing more than a common everyday trade made in oil producing section?

A. I have heard of some being made. I understand they are being made.

Q. (By Senator Martin.) Not uncommon?

A. No; not uncommon. It is the first and best one I ever made, Senator.

Q. (By Senator Pollard.) What I mean to convey was this: I know of several similar trades being made in East Texas at this time, although not for that much money.

The Chairman: Is that all? Any further questions?

(Witness excused.)

Senator Woodward: I move that the committee recess until tomorrow morning at nine o'clock.

Senator Martin: I second the motion.

Motion to recess until Wednesday morning, July 29, 1931, was thereupon put and carried.

The Chairman: Members of the Committee on State Affairs, we will recess until tomorrow morning at nine o'clock.

Thereupon the Committee on State Affairs recessed at 5:10 o'clock, p. m., Tuesday, July 28, 1931, until 9:00 o'clock a. m., Wednesday, July 29, 1931.

TENTH DAY.

(Continued.)

Senate Chamber,
Austin, Texas,
July 29, 1931.

The Senate met at 9 o'clock a. m., pursuant to recess, and was called to order by Lieutenant Governor Edgar E. Witt.

At Ease.

On motion of Senator Pollard, the Senate, at 9:03 o'clock a. m., stood at ease subject to the call of the Chair.

In Session.

The Senate was called to order at 10:35 o'clock by Lieutenant Governor Edgar E. Witt.

Bill Introduced.

By Senator Gainer:

S. B. No. 12, A bill to be entitled "An Act conserving and protecting for the use of the public buffaloes in Texas, making it unlawful for any person to kill, sell or transport the same except under certain conditions, and providing for a method of condemning the same by a State, Game, Fish and Oyster Commission, in order that buffaloes may be conserved and protected against destruction, providing the procedure therefor, and declaring an emergency."

Read and referred to Committee on State Affairs.

By Senator Small:

S. B. No. 13, A bill to be entitled "An Act to aid in the conservation and transportation of oil by encouraging the joint construction and operation of new and additional pipe lines in the State of Texas, thereby increasing competition in the transportation of oil to the markets of the world, by authorizing any corporation heretofore organized and incorporated under Article 1495 and Article 1496 of the Revised Civil Statutes of 1925, or any prior law, or any corporation that may be hereafter organized under said articles, and authorized to own and/or operate oil pipe line or lines in this State, to join with any other corporation authorized to own and/or op-

erate an oil pipe line or lines in constructing a new pipe line or lines upon such terms as may be agreed upon between the directors or managers of the respective corporations, and when an oil pipe line or lines have been so jointly constructed, the owners thereof are authorized to jointly own, use, operate and maintain the same upon such terms as may be agreed upon between the directors or managers of the respective corporations, but provided that such construction, ownership, use, operation and maintenance shall be subject to such supervision of the conservation authorities of the State of Texas as the law may now or hereafter provide; and declaring an emergency."

Read and referred to Committee on State Affairs.

By Senator Woodward:

S. B. No. 14, A bill to be entitled "An Act creating the Conservation Commission of Texas to be composed of three men; providing the qualifications of its members, their terms of office, their method of appointment, etc., and declaring an emergency."

Read and referred to Committee on State Affairs.

S. C. R. No. 4.

Senator Small sent up the following resolution:

Whereas, It is provided in Section 4 of H. B. 358, enacted by the Forty-second Legislature of the State of Texas, that all public school land sold shall be sold with reservation of 1/16th of all minerals, as a free royalty to the State and 1/8th of the sulphur and other mineral substances from which sulphur may be derived or produced; and

Whereas, It is provided in Section 5 of said Act that in all cases where a tract of school land has been occupied by mistake as a part of another tract, such occupant shall have a preference right for a period of six months after the discovery of the mistake, or after the passage of that Act, to purchase the land at the same price paid or contracted to be paid for the land actually conveyed to him, and confusion has arisen as to whether or not this preference right is limited by other provisions